DOCUMENT RESUME

ED 068 192 PS 005 974

TITLE	Costs of Day Care: Proceedings of a Workshop. Volume 2: Appendix. Final Report: Part IV.
INSTITUTION	Institute for Interdisciplinary Studies, Minneapolis, Minn.
SPONS AGENCY	Office of Economic Opportunity, Washington, D.C.
PUB DATE	Dec 71
NOTE	264p.
EDRS PRICE	MF-$0.65 HC-$9.87
DESCRIPTORS	Child Care; Computer Programs; Conference Reports; *Cost Effectiveness; Costs; *Day Care Programs; *Day Care Services; Disadvantaged Youth; *Early Childhood Education; Economic Factors; Federal Aid; Low Income Groups; Preschool Children; Program Administration; *Program Costs; Speeches; State Programs; Workshops

ABSTRACT

The 12 presentations and discussions of a two-day conference on the cost of day care, held in May 1971 and attended by experts on the costs, economics, and financial aspects of day care, are provided in this report. The presentations are as follows: "Techniques of Analyzing Costs and Cost-Benefit Ratios for Day Care" by Delroy Cornick; "Strategy for Day Care Cost Analysis" by Keith McClellan; "Community Assessment of Day Care Needs and Services" by Richard Zamoff; "The Economics of Child Care: Two Critical Gaps" by Mary Rowe; "Costs Analysis from 'A Study in Child Care, 1970-71'" by David Warner; "Family Assistance Day Care in Vermont" by Robert G. Stauffer; "Computer-Based Model to Analyze Costs of Day Care" by Donald G. Ogilvie; "Day Care Start-Up Costs" by Richard Grassgreen; "Public Agency Purchase of Day Care Services" by Alan R. Pittaway; "Reimbursing Day Care Costs" Burton Sonenstein; "International and Cooperative Day Care Programs" by Cynthia Jones; and "Massachusetts Early Education Project" by Robert Fein. (For related documents, see PS 005 969-973, 975-983.) (AL)

ED 068192

U. S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
OFFICE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE
PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS
STATED DO NOT NECESSARILY REPRESENT OFFICIAL OFFICE OF EDUCATION
POSITION OR POLICY.

DAY CARE POLICY STUDIES GROUP
Institute for Interdisciplinary Studies
123 East Grant Street
Minneapolis, Minnesota 55403

December 1971

PS 005974

Final Report - Part IV
APPENDIX
COSTS OF DAY CARE:
Proceedings of a Workshop
Volume 2

FILMED FROM BEST AVAILABLE COPY

FOREWORD

This final report is submitted to the Office of Economic Opportunity by the Day Care Policy Studies Group in fulfillment of Contract BOO-5121. This report presents the research undertaken by the Day Care Policy Studies Group and does not necessarily represent the policies or positions of the Office of Economic Opportunity.

The final report is presented in two sections; Part I Alternative Federal Day Care Strategies for the 1970's: Summary Report, and Parts II through X, supporting appendices to the summary report. The following separately bound volumes are included:

Parts: I Alternative Federal Day Care Strategies of the 1970's: Summary Report
- II
  - Volume 1 Child Care Programs: Estimation of Impacts and Evaluation of Alternative Federal Strategies
  - Volume 2 Appendixes to Child Care Programs: Estimation of Impacts and Evaluation of Alternative Federal Strategies
  - Volume 3 Measurements of Impacts of Child Care Programs
- III Existing Day Care Legislation
- IV
  - Volume 1 Costs of Day Care
  - Volume 2 Appendix to Costs of Day Care: Proceedings of a Workshop
- V Challenges in Day Care Expansion
- VI Public Opinion Toward Day Care
- VII Types of Day Care and Parents' Preferences

VIII Future Trends Affecting Day Care and Preschool Education

IX Volume 1 Training Programs for Child Care Personnel

Volume 2 Appendix to Training Programs for Child Care Personnel

X Volume 1 Day Care: An Annotated Bibliography

Volume 2 Bibliography Supplement for September, October, and November 1971

Volume 3 Bibliography Supplement for December 1971

In addition to this final report and supporting technical appendixes, the Day Care Policy Studies Group has provided the following supporting documents to the Office of Economic Opportunity in fulfillment of this contract.

An Explication of Some Alternative Federal Day Care Strategies for the 70's

Potential Impacts from Child Care

Considerations in the Evaluation of Alternative Funding Mechanisms for Day Care Services

The Effect of Present and Proposed Tax Deductions for Child Care

Emerging Findings and Implications for the Implementation of the Day Care Provisions of H.R.1 and OEO R & D in Day Care

Pending Federal Legislation Pertaining to Day Care

Review of Pending Day Care Legislation

Benefit/Cost Analysis of Day Care Programs Under a Family Assistance Plan

The Public's Opinion of Day Care

Paraprofessionals in Day Care

Some Implications of the Provision of Day Care Services

Day Care: An Annotated Bibliography Monthly Supplements

Questions Relating to the Federal Role in Day Care (Unpublished)

Evidence of Interest by States and Local Governments in Implementing Day Care and Preschool Educational Programs (Unpublished)

TABLE OF CONTENTS

Page

Preface iv

Conference Attendees v

TECHNIQUES OF ANALYZING COSTS AND COST-BENEFIT RATIOS FOR DAY CARE
Delroy Cornick 1

STRATEGY FOR DAY CARE COST ANALYSIS
Keith McClellan 13

COMMUNITY ASSESSMENT OF DAY CARE NEEDS AND SERVICES
Richard Zamoff 33

THE ECONOMICS OF CHILD CARE: TWO CRITICAL GAPS
Mary Rowe 39

COSTS ANALYSIS FROM "A STUDY IN CHILD CARE, 1970-71"
David Warner 63

FAMILY ASSISTANCE DAY CARE IN VERMONT
Robert G. Stauffer 87

COMPUTER-BASED MODEL TO ANALYZE COSTS OF DAY CARE
Donald G. Ogilvie 99

DAY CARE START-UP COSTS
Richard Grassgreen 109

PUBLIC AGENCY PURCHASE OF DAY CARE SERVICES
Alan R. Pittaway 133

REIMBURSING DAY CARE COSTS
Burton Sonenstein 157

INTERNATIONAL AND COOPERATIVE DAY CARE PROGRAMS
Cynthia Jones 191

MASSACHUSETTS EARLY EDUCATION PROJECT
Robert Fein 201

GENERAL DISCUSSION 211

PREFACE

This report contains the presentations and discussions which took place in May 1971 during a two-day conference on the cost of day care. The conference was held by the Day Care Policy Studies Group of the Institute for Interdisciplinary Studies under a contract sponsored by the Office of Economic Opportunity.

The intent of the conference was to bring experts on the costs, economics, and financial aspects of day care together, in order to solicit their advice and experience regarding alternative federal day care strategies for the 1970s. The intent was not to determine "a cost" for day care, but rather to examine the underlying issues related to financing and providing day care services.

The thoughts expressed in the report are in no way official and do not represent the position of either OEO or the Day Care Policy Studies Group of IIS. The proceedings do contain valuable information on the cost of day care and they are published here for that reason.

CONFERENCE ATTENDEES

Jacqueline Anderson, IIS

Stevanne Auerbach, OEO/HEW

Alta Bell, IIS

Joan Burchell, Welfare Reform Planning Staff/DoL

James A. H. Byrd, Harambee, Inc.

Robert Carlisle, IIS

Delroy Cornick, District of Columbia Public Schools

Robert Fein, Massachusetts Early Education Project

Elissa Feldman, PRE/OEO/HEW

Harvey Frankel, OE/HEW

Richard Grassgreen, Kinder Care Nursery Schools, Inc.

Iris Green, OE/HEW

James Hedrick, IIS

Daniel J. Holland, Vermont State OEO

Joan Hutchinson, CSA/SRS/HEW

Edward L. Jackson, Welfare Reform Planning/DoL

Cynthia Jones, Parents' Cooperatives Preschools International

Sally Kilmer, IIS

Susan Klaus, Westinghouse Learning Corporation

Carolyn Lawall, FAP Program Development/HEW

Terry Lewis, OCD/HEW

David Mandel, PRE/OEO/HEW

Michael Marquardt, OCD/HEW

Keith McClellan, Welfare Council of Metropolitan Chicago

Frances E. Miller, PER/DoL

Robert Mott, SRS/HEW

Donald G. Ogilvie, Inner City Fund

Alan R. Pittaway, Booz, Allen & Hamilton, Inc.

Judith Plotka, ESA/DoL

William Prosser, PE&E/OEO/HEW

Al Roma, Minority Business Enterprise/Dept. of Commerce

CONFERENCE ATTENDEES (continued)

Richard Ruopp, Abt Associates

Mary Rowe, Economic Consultant

Mary Siegel, FAP/HEW

Sidney Schneider, FAP Research/HEW

Burton Sonenstein, Peat, Marwick & Mitchell/KLH Child Development Center

Robert G. Stauffer, FAP Day Care Planning/Vermont State OEO

Fred Talcott, IIS

Eunice Wisher, Vermont State OEO

Richard Zamoff, Urban Institute

TECHNIQUES OF ANALYZING COSTS AND COST-BENEFIT RATIOS FOR DAY CARE

Delroy Cornick, DISTRICT OF COLUMBIA PUBLIC SCHOOLS

You may wonder what the associate superintendent for budget and executive management of the public schools has to do with day care. I hope to make this a little clearer in my paper, but most of it has to do with my background in the development of child care costs for the Department of HEW through the American University, and my work with the Welfare Council of Metropolitan Chicago under Leroy Jones.

I have been involved in this field for many years. In this presentation, I wish to explore with you my thoughts on the techniques of cost analysis and the analysis of costs and benefits as they may relate to day care.

In presenting my views on each of the two topics, I am guided by the maxim "It is not necessary to reinvent the wheel." It is my hypothesis that there are currently available the analytical tools necessary to accomplish cost and cost-benefit analyses. These tools have been developed in direct studies of day care centers or in related social services, such as group care facilities for children.

I would like to review for you very briefly some of the developments to which I refer. It is evident that since the initiation of the work on cost and day care centers by Robert Elkin in St. Louis in 1962, there have been a number of developments at the national and local levels and some changes resulting in pressures on the national agencies. Following publication of the project report on day care costs by the Florence Keller School for Advanced Studies in Social Welfare at Brandeis University, the Children's Bureau convened a conference in July of 1966 to determine what follow-up was appropriate.

The major conclusion of that conference was that there was a pressing need to follow through on the findings of the Brandeis project and to produce a workable set of procedures for analyzing costs of day care. It is particularly significant in light of these findings that a simplified version of procedures be developed.

While little was done directly in the day care center field after that, a first major breakthrough in cost analysis was produced in the American University project on group care facilities for children, and continued by Robert Elkin and Delroy Cornick and the Welfare Council of Metropolitan Chicago under the direction of Leroy Jones.

It was the general consensus that the scheme and techniques they developed were applicable to day care centers. There have been other follow-ups. The Welfare Council of Metropolitan Chicago received a grant to continue analyzing time, costs, and operation techniques in a local community, in a way that would be applicable to the day care field.

So far as I am able to determine, the system which is being developed in Chicago will be compatible with the cost analysis manual on children's institutions that was designed and field-tested by Leroy Jones, Bob Elkin, and myself.

Several approaches have been suggested to the development of cost-benefit techniques, both in day care and in related fields.

With this brief background, I would like to discuss these historical developments in terms of their potential applicability to day care centers. I am not going to get involved in specific equations or in recommending one technique over another, but I will try to explore with you what I think some of the issues are in conducting both types of studies and what I think is available either in day care studies or in other related areas.

For the purpose of this discussion, costs are facts about agencies' operations expressed in dollars. Cost analysis, therefore, is studying these facts according to some scheme. For example, costs may be examined in terms of resources used -- men, space, materials -- or in terms of output and objectives. The cost system or the structure used depends upon the needs of the decision-makers. That is, the system should provide data on which the various parties can base decisions.

I think with that in mind, you will see that my conclusions are that the cost structure you may use may vary. However, I prefer that there would be some uniform cost structure so that there would be comparability from agency to agency and from state to state.

Cost analysis can be designed in an almost infinite number of ways, and it may be as detailed or as complex as the goals warrant. The value or benefit in the cost reporting system is to identify for the decision-makers the parameters involved in the total process and in the pieces of the process. With this knowledge, the optimum mix of resources can be decided on; that is, decision-makers can determine either how to obtain the most service with the existing resources available or what resources are required to achieve a certain level of services, either in terms of production or output.

A cost structure used in the study about group care facilities centered on what was required to provide food, shelter, supervision, medical care, and so forth. To provide these, 15 functional areas were identified and I will just state a few of them: management in general, plant maintenance, meals, residental care staff, education, social work, and psychiatry and psychology.

Some feel that all of these are not germane to costs in day care centers. As I review some of the operations of day care centers, I find that almost all of these functions seem to be applicable, but at this point I am not actively in the field so I cannot argue with those who differ with my opinion.

A cost structure can be centered around objectives or goals. For example, an objective of day care centers may be to provide a safe and healthy environment for preschool children which will stimulate and encourage positive learning experiences and provide professional guidance on problems of child care during hours of the day when their own parents or guardians cannot provide such care. Based upon this statement of objectives, costs may be identified for education -- i.e., promoting a positive learning experience -- or they may be for physical needs -- i.e., providing food and sanitary surroundings and maintenance services as they relate to the objective of providing a safe and healthy environment. Or costs may relate to the social welfare services provided to obtain the objective stated above -- promoting good social and familial relationships through professional guidance.

Again, the cost analysis structure depends upon the type of information that must be made known to make intelligent management-type decisions at the agency community, local, state, or federal level. Cost analysis systems, therefore, are basically designed to determine the dollar value of resources used to achieve particular goals and functions involved in producing these outcomes.

The other value of knowing costs is to enable you to evaluate benefits derived from providing the service in relationship to the cost of providing that service. This brings us to the topic of cost-benefit analysis. I am not going to argue whether there is a semantic difference between cost-benefit or cost-effectiveness analysis; I am defining cost-utility, cost-benefit, and cost-effectiveness as meaning all the same thing. Cost-benefit analysis is a tool to measure in cost a program's real benefits to various segments of society, and it is a useful means of evaluating programs.

Needless to say, to measure a program's real benefits requires knowledge of the program's objectives, the methods used to achieve the objectives, and the target group selected or served by the program. A program for our purposes consists of all the resources -- personnel, time, money, and techniques -- that are used to accomplish a specific goal for a specific client group. If the goal is to provide adequate care for preschool children during the daytime hours, the day care system must be defined in terms of all the personnel, buildings, equipment, and food that are required, plus the processes involved in finding which are the children who need care, qualifying them for assistance, getting them to and from the day care facilities, minding them, training and recruiting personnel, and obtaining facilities. More broadly, it also includes all activities necessary to insure that all preschool children are properly cared for.

We might develop our cost structure based on these needs. But not only resources affect the benefits to be derived from a program, the mix of activities provided by the program also affect benefits. A day care center which stresses early childhood education would have different benefits than one whose program stresses other services, such as recreational ones.

PS 005974

Let me briefly present a benefit model. Benefits may be to the individual, to society, or to governments. Each category may also be divided into two parts -- the tangible and intangible benefits. Therefore, in a cost-benefit analysis, benefits may be stated in terms of savings or in terms of increased productivity, more social usefulness, improved self-concepts, and a greater number of social motivating factors. The benefit model for day care centers which stresses preschool or early childhood education, (as we stated earlier in our goal "to promote a positive learning experience") might include the following benefits:

Benefits to the Individual	Benefits to the Educational System	Benefits to Society
First-grade readiness	Reduced costs for preventing drop-outs	Increased productivity
Improved self-awareness	Reduced outlays for remedial tutorial services, etc.	Decreased costs due to juvenile delinquency, family disorders
Increased earning power (long-range benefit)		Reduced civil disturbances
		Reduced social costs

Benefits to the individual may be first-grade readiness and improved self-awareness, and there may be a long-range benefit in increased earning power through having met the educational requirements successfully.

In terms of government -- and I will include an educational system as an element of government -- there is a reduction in the cost of preventing dropouts , there is a reduced outlay for remedial services, tutorial services, and many of the other expenditures which public schools enter into in preparing children long after they have entered the formal classroom.

In terms of society, there is increased productivity, decreased cost due to juvenile delinquency or family disorders, reduced civil disobedience, and reduction of other social costs.

There are reports that suggest that children who have been enrolled in day care centers perform better than their peers who have not had this experience. I refer to some studies done by the National Capital Area Child Care Association, and I refer here to a study by Dr. Max Wolf of New York in 1966, which showed significantly higher reading scores by third graders who had spent at least two years in a quality day care program.

Another possibility to be considered in our benefit equation is the fact that under Title IV, day care must be provided for persons taking part in the Work Incentive Program. Many cost-benefits studies have dealt with the benefits of training ADC mothers (and if I am using ADC at this point in time, it shows how archaic some of my terminology may be) hence, the spillover benefits accrue to the day care centers, which enable the training program to function. Thus, it is a program whose benefit may be measured in terms of the extent to which it aids another program to function.

Another kind of benefit is illustrated by the need to provide care for children aged six months to five years during regular junior and senior high school hours. This is to provide suitable child care so that girls who drop out of junior and senior high schools to have children may return to school. The fact that day care centers are being provided for these young girls means they are able to return to school and hence, if they complete their education, they reap the benefits I mentioned earlier of increased self-awareness, increased earning power, and so forth.

Benefits may be both tangible and intangible. To round out and make our equations complete, I am going to mention just a few of the standard items which we might consider in the cost-benefit equation. To government there is the increase in taxes at the different income levels, as I mentioned earlier in reference to the Bateman study, and the differential income or marginal income due to successful completion of school. This could be considered a benefit. Decreases in ADC payments and unemployment compensation may be also used in the benefit model for government. Benefits to society we just mentioned are the increase in gross national product or the reductions in the social costs, such as the social cost associated with under-achievement.

Another benefit to consider in relation to educational institutions is a reduction in the cost of dropouts. For example, District of Columbia public schools may invest $1000 to $1500 per year in a child for nine years only to have him drop out at grade ten. Recognizing that early educational deficiencies play a part in whether or not a child will drop out of early childhood programs, Head Start and remedial programs and tutorial service programs are instituted, and they consume a significant portion of the annual public education budget. To the degree to which a success pattern in grade readiness is identified in day care center programs, the cost of providing the remedial type programs that I mentioned above could be "priced out" and included on the benefits side.

Certain of these costs cannot be measured. However, there are many proxies for determining these costs. Losses from riots, for example, may be obtained from municipal budget figures, police and fire overtime payments, insurance company pay-outs, mortality and morbidity rates, fire losses, and so forth. The lack of not necessarily self-respect but of the achievement of one's full potential can lead to frustration which may result in social costs to all of us.

Literature suggests that productive employment, particularly in the case of the male head of the family, has definite social values in terms of increasing family unity. This, in turn, reduces family breakups and other symptoms of familial and social difficulties and its concomitant social costs.

I might add that the time stream as well as the discount rate are important factors in cost-benefit analysis. Just briefly, the cost benefit rate suggests that the smaller the discount rate used, the larger the benefit-to-cost ratio. Since the discount rate is the denominator in computing benefits, the larger the discount rate, the smaller the benefits. Therefore, as the benefits become smaller in relation to cost, this ratio decreases:

Discount Rate	Benefit-Cost Ratios
6%	.60
5%	.80
4%	1.00
3%	1.30
2%	1.60

There is a unique congressional publication dealing with the discount rate, for those of you who are actually involved in doing a cost-benefit study in this field*

---

[*] U.S. Congress, The Planning-Programming-Budgeting System: Programs and Potentials. Hearings before the Subcommittee on Economy in Government of the Joint Economic Committee, 90th Cong., 1st Sess. (Washington: GPO, 1967), pp. 129-179.

I wish to repeat my opening statement that it is not necessary to invent the wheel again in developing cost analysis or cost-benefit tools applicable to day care centers. It was my intention not to prescribe a set of methods for either technique, but to acquaint you with developments in these techniques and show how these tools can be adapted to the needs in the day care field. In my opinion, the basic need is to determine what are the goals and objectives of day care, to identify the decision-making needs, and then to determine the cost structures which provide the necessary facts.

A careful look should be taken at the interactions among the various program mixes in the day care field. These should be related in part to the individual, the family, and the various segments of society such as welfare services and educational services. Then these relationships should be examined in terms of benefits either in reducing the adverse conditions or in increasing the desirable outcomes for our children in our future society.

* * *

MR. STAUFFER: Could you cite, perhaps, what you consider to be the best example of cost-benefit analysis as applied to child care at a particular time? What do you think is a good effective use of these concepts?

MR. CORNICK: I can think of two illustrations. One is the cost-benefit approach used by Worth Bateman at HEW a couple of years ago. Then there is a cost-benefit study done in relation to the Webster Girls School in the District of Columbia that we used in our justification (with the National Capital Day Care Institute) for trying to involve the public schools in what we called our extended day care centers that are open from 3:00 to 6:00 P.M.

I am not really acquainted with any cost-benefit studies in day care, but again if you analyze the components, I think you will find other studies that will justify those. For example, there have been many cost studies of day care centers done as an aid to the Work Incentive Program. If we are relating the impact of grade readiness on the child, then there have been cost-benefit type studies based on the child's readiness for school.

What I am suggesting is, while there may not be a model for any particular benefit, if you do identify the clients to whom you are rendering the service, you can find other studies relating to the same benefit, which is an indirect kind of approach.

MR. WARNER: Did you do a sensitivity analysis on Webster Girls School to see how sensitive the actual benefit-cost rations you came up with was to the assumptions that would always have to be made in this kind of analysis? My experience with analysis is that under different kinds of reasonable assumptions the ratio can bounce all over the place and therefore the whole approach is still in an infant state. Any ratio you come up with is highly questionable. Did you look at different reasonable discount rates?

MR. CORNICK: I mentioned in my talk that you can skew your cost benefit all over the place based upon what your discount factor may be. Relating particularly to government, we usually use 10% but you are absolutely right that you can use any factor that you want. We did not do what the people in the field might consider a purchase-cost analysis because I consider the application of cost-benefit in the social services to be in its infancy as opposed to its application to the hard sciences or the military.

We can argue about the various techniques and points and applications of hard sciences to the social welfare field so that we probably did not use cost benefit in its classical sense.

DR. ANDERSON: You were talking about readiness. Did you look at readiness in the first grade and remedial costs over the next two years?

MR. CORNICK: There were studies that indicated that a greater proportion of children who had early day care or nursery school experience were ready at grade level than those who had not had this experience. We used in our calculation the cost of getting children to the level that they should have been when they arrived at first grade. The cost of remedial and extra compensatory education, which we pump in grades one to three to try to get children up to the grade level they should have been when they arrived, was compared to the cost stream for the children who had not had this early experience.

STRATEGY FOR DAY CARE COST ANALYSIS

Keith McClellan, WELFARE COUNCIL OF METROPOLITAN CHICAGO

There is a great deal of ambiguity associated with the term "day care." It is used to describe a wide variety of child care arrangements available for less than 24 hours, outside a child's own home. The settings, functions, philosophies, activities, size, clientele, and ownership arrangements implied by the term are manifold.

Day care can be a means of achieving continual care for dependent, delinquent, retarded, physically disabled, and/or emotionally disturbed children by reducing the need to remove them from their families while solutions are being developed, or it can be a means of providing merely custodial care for the children of working parents. It can also be a method for affecting a child's development and learning, or a combination of any of the foregoing.

Day care can be designed to serve infants or other preschool youngsters. It can also be designed to serve school-age children in the hours before and/or after school. The techniques of day care can even be applied to night-time care in group or nonresidential settings.

Many day care centers operate the year round, while others operate only a portion of the year. Some day care centers are open seven days a week. Day care centers can be open twelve hours or more a day, or they may be open for only three or four hours a day.

Let me repeat, day care is an ambiguous term. State licensing requirements reflect this ambiguity. In Illinois, for example, licensed day care centers include facilities commonly called "child care centers," "day nurseries," "nursery schools," "kindergartens," "play groups," and "centers or workshops for mentally or physically handicapped" with or without stated educational purposes. However, privately-owned nurseries are licensed as day care, but nurseries operated by a board of education or a parochial school are not. Centers for mentally disturbed children are often licensed as day care, but in some cases they are licensed as multi-service institutions. Centers for the retarded and/or for the physically handicapped are licensed as day care but they are also licensed as multi-service institutions, and, in some instances -- particularly when parents are involved in supervision -- they are not required to be licensed at all. Park board recreation programs that share common characteristics with those of day care centers are not usually licensed, but they are on occasion. Some Head Start centers are licensed, while others are not.

Cost analysis implies making cost comparisons, and comparisons require a clear understanding of what is being compared. Obviously, comparing the costs of establishing or operating day care centers which serve children who are deaf and blind with centers which serve normal children without reference to the differences in clientele and program would be misleading. Hence, classification or the grouping together of day care programs with similar attributes is a prerequisite to making useful and reliable cost comparisons.

Classification requires accurate definitions, identification of functional relationships, and role differentiation. It also requires mutually exclusive categories, categories that do not overlap. Classification must be exhaustive; that is, there must be a class for every observation that has been made. And, finally, classification should be based on a single principle or a single purpose or objective. Failure to comply with these guidelines results in inaccurate and inappropriate comparisons which occur because of shifting definitions, shifting composition of groups, and misinterpretation of associations.

A system for classifying day care centers should incorporate consideration of their locations, sizes, operating schedules, clientele, special services, initial levels of capitalizations, ownership auspices, and programs.

In order to undertake cost analysis certain basic fiscal data showing assets, liabilities, revenues, and expenses must be gathered. Assuming that necessary fiscal information is recorded in adequate detail, reliable fiscal data of this kind can be acquired as the output from a variety of accounting systems.

One characteristic, however, must be presented: the accounting system must use accrual accounting as contrasted to "cash-basis" accounting. Most day care center owners and managers currently use cash-basis accounting. They simply record and report revenues only when they are received in cash and expenses only when they are paid in cash. Since a center must meet its obligations on this basis, it is reasonable for their owners or managers to assume that such accounting is adequate for its fiscal reporting. However, cash-basis accounting introduces significant inaccuracies.

Even the revenue from client fees and the expense of payroll costs are seriously distorted by "cash-basis" accounting. For example, consider the distortion introduced when a new year starts on a

Wednesday or a Thursday and ends on a Friday and the center pays salaries on a bi-weekly basis. Under these circumstances the center will be reporting 54 weeks of salary expenses. Likewise, the unpredictable expense variations caused by delayed billings for purchases near the end of a year are an even more important cause of distortions.

Cash-basis accounting also opens the door wide for manipulating a center's expenses for a reporting period simply by withholding and not paying some of its year-end bills.

Over the past decade several systems of cost analysis for child care centers and institutions were designed around functional accounting. These systems have yielded some useful information about the cost of child care. However, they gained limited acceptance because they have required cooperating organizations to abandon their accounting systems and adopt a specific functional accounting system.

All too often the functional accounting system recommended for adoption as a part of cost analysis did not have universally applicable functional categories, and thus it thwarted cost comparisons between competing systems of child care service delivery. Moreover, the system often failed to identify and isolate exogenous costs, such as portal-to-portal bus service, from core program costs; this made it impossible to derive reliable indices of accountability, since meaningful cost curves could not be established. Finally, the cost accounting procedures built into these systems were typically expensive and time-consuming. All too often they were guilty of over-kill, in that they required larger financial investments than the value of benefits that were gained.

Some of these problems can be overcome by substituting functional reporting systems for functional accounting systems. Others can be kept to manageable proportions by eliminating time studies, space utilization studies, and similar procedures, and by prorating administrative and overhead costs on the basis of other criteria.

Functional accounting is a method (1) of structuring original-entry accounting books and the general ledger, or (2) of using a subsidiary ledger to facilitate the accumulation and allocation of costs and income by program or service function.

By contrast, a functional reporting system simply concentrates on reporting operating costs by program or service function. Functional reporting is an end product of functional accounting, but a functional accounting system is not a prerequisite to functional reporting.

By focusing on standard reporting of income and expenditures rather than on the method of bookkeeping employed, it is possible to gain cooperation of more types of child care centers than would be possible if centers were asked to institute changes in bookkeeping procedures. Moreover, reliable cost analysis requires standard reporting of annual expenditures rather than a standard accounting system for those expenditures.

A variety of accounting systems may potentially yield the necessary data for standard reporting, as is the case in income-tax reporting. Hence, an over-concern with the accounting systems used by day care centers may detract from energy that may be better spent in making certain that the expenditures reported through standard reporting forms are appropriately handled so that the data generated will reflect comparable programming and levels of service.

One of the major obstacles to functional reporting is determining an accurate proration of the salaries, payroll taxes, and fringe benefits paid to employees who perform more than one job function. Since approximately 80% of all day care costs are labor costs, this is a very important consideration.

Traditionally, time studies have been made of the activities of these employees as a basis for prorating their salaries, etc., to the appropriate functional categories. A time study, of course, is the most accurate device for prorating the time and subsequently the salaries, and so forth, of personnel with more than one function. However, time studies are relatively costly and inconvenient to undertake. Moreover, unless a daily log which accounts for even short intervals of time is maintained, their accuracy is limited.

Consequently, an analysis of work schedules and job titles and systematic estimates of the number of hours per week spent on various duties are recommended in lieu of time studies.

Typically, the costs of occupancy are prorated among various functions according to percentage of total floor space occupied by each. This method of prorating occupancy costs has a number of inherent weaknesses when applied to the analysis of the costs of operating day care centers.

By and large, day care centers -- particularly proprietary centers -- use available space for a number of functions during the course of an operating day. Consequently, prorating the use of such space would require time studies of space-use before the cost of that space can be accurately approportioned. Such time studies would be complicated by changes in the use of floor space during the course of a year.

Prorating common space such as halls, rest rooms, utility rooms, and storage space, requires a special strategy when floor space is used as the device for distributing occupancy costs. Furthermore, not all space is of equal value, as is assumed in this technique for distributing occupancy costs. Moreover, how should the costs of grounds be prorated? Finally, it seems questionable to distribute heating and air-conditioning costs on the basis of floor space when, in fact, the amount of cubic space being heated or cooled is the determinant of these costs.

An alternative method of prorating occupancy costs is recommended. It calls for distributing occupancy costs on the basis of the man-hours spent on each function except providing transportation. While this method of proration creates mild biases, it has two significant advantages. First, and foremost, it is easy and inexpensive to compute. Second, there is a close parallel between the number of man-hours spent by persons engaged in various functions and the way in which space is used in child care centers.

Once occupancy costs have been distributed among administration and the program functions, then the costs of administration should be prorated among program service functions. I recommend six program service functions.

Supervision and education are one category. Then there is special education, which would include things such as dancing, as well as languages, programs for retarded children, speech therapy, group therapy, and so forth. Health services, food services, intake evaluation and referral are the third, fourth, and fifth categories. I use these terms rather than social work because we have assumed that social workers, when they do function in a day care setting, have many functions; thus a portion of their time is administrative and another portion of it may be used in intake evaluation or referral. And, finally, there is the function of staff development and on-the-job training.

I call these the program service functions of a day care center. It is possible they are performed by all child care centers. Transportation and other kinds of exogenous costs are also recognized as being services, but they are separate from the above-mentioned core services.

Many functional reporting systems divide administration into general management and fund-raising prior to prorating management costs. When fund-raising costs are separated from other management costs, the total cost of fund-raising is generally distributed among various program service functions on the basis of the percentage of total net expenses incurred by each function.

This division is not recommended because it is difficult to relate fund-raising efforts to specific program service functions in child care service centers. For the same reason, procedures outlined in this paper do not call for calculating the net expenses for the six program service functions which have been identified.

There are several possible methods of prorating administration costs, whether or not fund-raising is considered to be a part of management. Several functional accounting systems, including the one recommended by Community Fund of Chicago, Inc., use the percentage of the total cost of the salaries paid to persons engaged in the operating program functions as the mechanism for prorating administration expenses to functional program services. This method of distributing administration costs has some significant weaknesses.

The implication of the system is that it costs more to manage staff personnel who receive high salaries than those who receive low salaries. This certainly a spurious assumption since higher salaries are often given to persons who have a greater degree and more experience and initiative. Furthermore, it assumes that substituting contract services for salary reduces administrative costs. Finally, distributing administrative costs, such as licenses and telephone and other communication expenses, on the basis of dollar value of salaries paid introduces distortions.

A second method of distributing administrative costs uses the percentage of total man-hours spent by staff in each of the program service functions as the basis for distributing administration costs. In order to avoid the distortions introduced by the substitution of contract services for staff services, this method requires an adjustment for the man-hours spent by contractors in providing services in each of the program service functions. This adjustment requires special accounting. If special accounting is available, the distribution of administration costs by this method has advantages over the method based on the percentage of total salaries spent in each function, since it neutralizes distortions created by differences in salaries paid to personnel.

The third method of distributing administration costs is the method I recommend. It calls for computing the percentage of the total amount spent on providing each functional program service and prorating administration costs on this basis. While this method of distributing administration costs is affected by differential salaries paid to personnel performing different program functions, the effect of this distortion is somewhat neutralized by accounting for contract services and costs not related to personnel in the expenditures for each functional category. Furthermore, this method of distributing administration costs avoids the necessity for keeping records on man-hours of time purchased through contract services.

The purpose of cost analysis is to provide management tools for (1) excising organization control, (2) pricing goods and services, and (3) determining sound investment patterns. Two distinctly different kinds of comparisons are needed to achieve these purposes: comparisons between different functions within the same child care center or agency, and comparisons between the operating costs of different child care centers or agencies.

Comparisons between the operating costs of different child care centers of agencies depend upon an appropriate classification system to assure the validity of such comparisons. Three types of cost comparisons between different child care centers are recommended:

1. comparisons of the operational differences between two or more child care centers in terms of cost and program;
2. comparisons of the operational differences between two or more types of child care centers in terms of the cost and program;
3. comparisons of how widely individual centers in the group vary by terms of cost,and this results in the establishment of norms of the deviation of individual child care centers and groups of child care centers from these norms.

The distribution of the percentages of total income derived from fees, interest, memberships, gifts/contributions, rentals/leases, sale of property, and special events is seen as an indicator of the strength and stability of the day care center's income pattern.

The distribution of the percentages of total expenditures for personnel, building occupancy, licenses, communications, advertising/fund raising/community relations, supplies, special services, and other expenses is an indication of the operating integrity of the day care center.

Other useful indices for internal comparison include:

- the ratio of capital investment to annual operating expenses;
- the ratio of personnel costs to total operating costs;
- the percentage of total operating costs spent on each functional category of the center's operations;
- the ratio of management costs to program operating costs;
- the ratio of fund-raising costs to funds raised and of funds raised to operating expenses;
- the ratio of the value of the capital assets accumulated during the year to total income; and
- the total cost per-child per-hour of day care service.

All of these indicators should permit the informed financiers, promoters, and operators of day care centers to assess at a glance the operating condition of the center being evaluated.

With some precautions, the same indices used for internal cost analysis can be applied to comparisons between day care and other child care centers. Measures of variance, such as the range, the average deviation, the standard deviation, and the quartile deviation, can be used to describe types and degrees of difference between centers. When two or more groups of centers are compared it should be kept in mind that comparisons of central tendencies are being made. If the variance within the groups being compared is greater than the variance between the groups being compared, the comparison will be of dubious value.

Finally, norms, or the typical behavior expected from a group of interactors large enough to reduce the prospects of new cases significantly affecting the arithmetical mean, are an important source of comparison. When combined with a control of size so that cost curves can be calculated and used to estimate optimum sizes for efficient operations, norms can be of invaluable assistance to the owners, financiers, promoters, and managers of day care centers. However, it is not envisioned that one set of norms or central tendencies will be adequate to describe all day care centers because of the difference in location, size, length of operation, clientele/special service, level of capitalization, ownership-auspices, and program. Hence, the establishment of appropriate sets of norms for the operating costs of day care centers will be a major undertaking.

The cost analysis strategy outlined in this paper is a long way from cost-benefit analysis, much less cost-effectiveness analysis. Even when completely adhered to, the strategy outlined here will depend heavily upon the art of management which requires judgment, experience, and use of serendipitous information. Of course, cost-benefit analysis must also be used in conjunction with educated judgment, because it does not necessarily favor the "cheapest" or even the "best" program. Furthermore, unless the procedures for calculating cost and benefits are controlled to take into account the law of diminishing returns, cost-benefit analysis may favor less efficient strategies than those potentially available.

Cost benefit analysis rests on these simplified assumptions:

1. Any particular program or strategy affects only a subset of people, the quantities and prices of goods and services produced, and the resources used.
2. Effects can be isolated and broken into components which can be assigned a dollar value.

3. The social value of things outside the subset is not affected by the strategy/program or need not be taken into account.

In short, cost-benefit analysis assumes a closed system of cause and effect. This assumption would appear to be particularly dangerous when dealing with day care, since it may well be that the most important influences on the possible benefits to day care recipients are outside the scope of day care programming per se. For instance, home environment, including family size, income, and mores, parental attitudes, social values, and teacher attitudes may well play more important roles in child development than any type of day care arrangement.

Moreover, if imprinting releaser mechanisms, or variations of these patterns (regardless of how complex) occur in human beings, and/or if the observations of child development specialists about the time at which significant changes in a child's character development take place are valid, it cannot be assumed that day care per se (including Head Start) will significantly affect a child's development pattern.

In order to determine valid benefits of day care for children, it will be necessary to control several of these potential intervening variables, together with other variables, such as current parental employment arrangements, child care arrangements, and patterns of cultural development among the children served.

One of the most serious shortcomings of cost-benefit analysis, as it is traditionally used, is its inability to adequately take into account cost effectiveness. It is often possible, for example, to "kite" the benfits of a program by enlarging its target population at the cost of increasing inefficiency. Overcoming this defect requires determining cost-curves which are usually outside the scope of cost-benefit projects and models.

Perhaps the most difficult part of undertaking cost-benefit analysis of social service programs and strategies is the identification of benefits. The difficulties involved in assigning dollar value to child development outcomes, changes in family values, and related educational, health, safety, and social benefits is a delicate problem with implicit value judgments built into it. Moreover, the identification of benefits implies objectives or goals toward which changes can be viewed as benefits. In short, when used by the federal government it implies the need for a well-defined and consistent national policy.

In light of these observations, I submit that the cost-analysis strategy outlined in this paper, when combined with selective evaluation of program impact, is preferable at this time to cost-benefit analysis.

VOICE: Have you conducted cost-analysis along the lines you suggest?

MR. McCLELLAN: No, I just completed a manual of instructions for conducting cost-analysis along the lines I have projected. We have arranged with 32 day care centers in the state of Illinois -- 24 of them in the city of Chicago, 8 outside of metropolitan Chicago -- and between now and early fall we will have conducted field tests of the manual in those 32 centers.

I would not argue or maintain that this cross-section of 32 centers will be a meaningful representation of day care centers in the country. The sample is not a statistically representative sample, and it will not establish norms. They will be possible indications of cost ranges for different kinds of day care.

MR. CORNICK: You mentioned that the cost-benefit analysis is predicated upon a closed system and does not assume any spillover benefits outside of benefits to the individual. That is a little at variance with the intangible values, different levels of beneficiaries and spill-over benefits you talked about. Was it your intent only to point out the difficulties or pitfalls in going into a cost-benefit analysis or does your analysis not include these "benefits"?

MR. McCLELLAN: In order to undertake that cost-benefit analysis, you have to make simplifying assumptions. You must assume that there are specific sets of benefits that are derived or a specific set of things that are affected by the program under consideration. It may well be that everything in the universe is affected by child care, or potentially affected by preschool child care. It would be impossible to undertake a cost-benefit analysis under those conditions. It is also not possible to undertake cost-benefit analysis if you assume elaborate interaction. You must set some simplifying assumptions.

MR. STAUFFER: I am interested in knowing what the anticipated scope of this system is. You indicated that this was presumably a very costly type of accounting system. I think it could be envisioned as costly in terms of training people to use it, in monitoring the system to see what judgments were made in allocating certain distributable costs, and things of this nature. Do you feel that this is a system that would involve broad-scale reporting from, let's say, all of the suppliers in a particular program, or do you feel this would be a sample system to feed into your cost-benefit analysis?

MR. McCLELLAN: First of all, it is always relatively expensive to undertake cost analysis. Second, all systems are relatively complex. Having a system which is capable of being used by practitioners in the field doesn't necessarily mean that you provide a system that doesn't have detail. On the contrary, it is far more useful to have a significant amount of detail in the system so that fewer individual judgments are required.

I believe that the system we have designed and will be field testing can be used by most practitioners and that the forms can be made out within a three-day period. But I don't know this to be the fact. This is one of the things that we should find out during the field tests. Whether or not the system will be widely used as a source of accountability and information won't be a decision that I will be likely to have very much to do with.

MR. CARLISLE: You are just beginning the field test now, is that right?

MR. McCLELLAN: Yes. We have established contact with the Illinois State Department of Children and Family Services, and I got a duplicate deck of all of the licensed day care centers in Illinois.

In metropolitan Chicago there are 673 licensed day care centers. I made 60 visits to day care centers last year. I devised a census for the day care centers in metropolitan Chicago and received a 55% response. On the basis of that response, I have undertaken to classify day centers according to a system. We have also established working relationships with more than 30 day care centers from whom we will get information.

When you are trying to undertake this kind of research, initially there is quite an investment just in getting the cooperation of proprietary day care centers, particularly because you are asking some very intimate questions about their operations. The Brandeis study floundered on this problem. We think we have overcome it. We won't know, though, until we actually do get their books.

MS. HUTCHINSON: In working at the federal level we see the need for getting accurate accounting on costing, perhaps with a given number of elements. The functional detailing Mr. McClellan talks about could be itemized under each of the functional elements that would be needed for cost reporting at the national level. This is something we are considering in HEW, both through a small costing study and in a larger information system. This larger system will be a combination of many of the smaller field studies, which are very good.

I think there is awareness that we have got to zero in on costing elements to get some accountability for all the money that is being spent. Perhaps the way is through the use of federal funding to get some accountability for the way federal funds are being spent.

MR. RUOPP: I am not clear to what extent the system you are proposing is sensitive to in-kind revenues, that is, cost both in voluntary and donated space and the paid-for kind, which obviously affect comparability.

MR. McCLELLAN: That question is one of the reasons the manual is so large. We have endeavored to take into account in-kind contribution of services as well as goods. The problem raises a great many questions. What if someone volunteers services and you don't need them, but you don't really feel that you can turn them down because they might also be giving you money? That kind of question multiplies. We have tried to go into some detail on how to handle those problems. I don't know if we have done it accurately or not.

In about two weeks or so, the manual should be ready for general distribution and you can judge for yourself. It will, we hope, be distributed by the Welfare Council of Metropolitan Chicago and by the Office of Child Development.

MR. HOLLAND: I share some of the concerns about the overhead costs against the services. We have had a tremendous expansion in Vermont from 36 to 199 licensed facilities. A good share of these are under joint funding which includes federal programs and local and state money. Does your manual address itself to this joint funding?

MR. McCLELLAN: We hope so, yes. The problem of start-up in day care is not unique to Vermont. Moreover, day care tends to have, over the years, a fairly rapid turnover in ownership and auspices.

The half-life of day care centers is less than three years. I don't have accurate data on this question yet. I do have good data on about 300 in metropolitan Chicago, and there is a high turnover.

There has also been a sharp increase in the number of day care centers starting in operation. On the whole business of start-up there is a lack of reliable information.

MR. PROSSER: Would you define half-life expectancy, please?

MR. McCLELLAN: It is a period of time in which at least half of the centers have gone out of business at any given starting time. Within three years over half of the centers starting at any given time would have gone out of business.

MR. OGILVIE: Would your system be as applicable to family day care, as it would be to a center? It seems to be applicable to a center where you have enough overhead to support such a system. Does it also apply to the smaller center?

MR. McCLELLAN: Because of the costs, I would not recommend it. Family day care is even more economically marginal than day care centers. I would not think that it would be reasonable to ask most day care homes to undertake this kind of analysis. I think the smallest center the system could apply to would have ten or more children.

MS. ROWE: As you know, we also set up a functional budget analysis system which collects data on a line-item budget. Since we began that last winter, I have taught that system to something like three dozen day care operators, little and big, family day care systems and non-systems, universities, proprietary centers and others, some with huge in-kind contributions like the Harvard-Radcliffe system which is 67% in-kind.

People catch on like lightning. There is an enormous difference between the costs of a system like this which is intended for responding to the government in quadruplicate and one which is taught to operators so they can evaluate their programs.

The people we have been working with in Massachusetts and other places on the East Coast are, for their own evaluations, absolutely delighted, which I gather is also Keith's experience. My feeling is that the thing can be sold on a simplified basis to administrators in terms of their own benefit in the same way that any private business owner is delighted to learn to keep his books better.

If it is forced on people by a state planning system, or if it is put on an income tax basis, it is apt to be expensive and unwieldly, because people do not want to conform to it. If they want to do it for their formative evaluation purposes, the costs suddenly disappear because people will do it anyway.

Massachusetts is investigating this in elaborate detail. We must associate ourselves with this concern, but I think the questioners have been too worried about costs, judging from our experience in Massachusetts.

COMMUNITY ASSESSMENT OF DAY CARE NEEDS AND SERVICES

Richard Zamoff, URBAN INSTITUTE

The title of the research in which we are engaged is "Assessment of Day Care Services and Needs at the Community Level." It is being supported by Ford Foundation and Department of Housing and Urban Development funds.

The first phase of the project began on October 1 of 1970 and concluded on January 1 of this year. It was carried out in two of the four quadrants of the District of Columbia's Model Cities neighborhood and also in a middle-income neighborhood in Montgomery County, Maryland. The second phase is being executed in the Mount Pleasant neighborhood of Washington, D.C., which is much more mixed economically, ethnically, and racially than the other neighborhoods used in the study.

In both phases of the study, we have hired residents of the communities to help plan and conduct the study and to participate in the data collection and analysis. In the first phase of the study, we relied on volunteers, including some from a local Unitarian church and members of a NOW chapter.

The central focus of the study has been methodological. Our primary goal has been to develop a set of evaluation procedures that would be useful at the local community level to assess day care needs and priorities of community residents and also to assess the community preferences for different types of day care arrangements. We are concerned with placing in the hands of community residents and city agencies the tools for day care assessment. We are focusing on groups which do not possess many resources in the day care area and which also may not possess much technical expertise in conducting research.

We started the project by asking the community residents we were working with what kind of information they would want to have in order to know if the day care arrangements that were operating in their community were working well.

We obtained other basic information by means of the customary methodological techniques and used interviewer training procedures, role-playing techniques, and the like, to shape a set of evaluation procedures and instruments which were then field-tested in the three locations mentioned earlier. We are now field-testing in the Mount Pleasant neighborhood.

In establishing these evaluation procedures, our aim is twofold. First, the goal is to equip these community groups, city agencies, and local neighborhood residents with information that will put them in a better position to use day care money. The second aim is to collect some information which would be useful to the people who are now providing day care, either at centers or at home facilities so that these persons would have the information to perhaps modify or revise their daily operations.

So we focus on relatively simple things, such as the hours that residents of the community are working at their jobs, and then match that up against the hours that the day care facilities in that community happen to be open. This yields one piece of information which a provider of day care might want to use in order to adjust the hours that his facility is in operation. Of course, you can go on with that in terms of the kind of service or the quality of service being provided.

We also aim in our work to equip community residents with the kind of census information, and the ability to use certain kinds of census information, which would give them a rough feel for what day care needs might be in their own locations, how they might use that information to zero in on particular problems and connect these to the evaluation instruments which they are shaping.

The end result of all of this will be some sort of guidebook which can be thought of as a cookbook approach to day care evaluation. We are calling this publication A Guide to the Assessment of Day Care Needs and Services at the Community Level.

The guidebook will include the evaluation techniques and approaches which community residents, at least in the places that we have worked, are developing as appropriate for evaluating day care arrangements in their own neighborhoods.

These kinds of procedures are relatively inexpensive to administer. For example, there is a 30-minute telephone interview for neighborhood residents which we feel will produce as reliable and valid data as other collection procedures. Other instruments include a rather brief interview of personnel working at day care centers, and possibly interviews to be used with agencies that have licensing responsibilities.

We are, of course, open to the possible criticism that the 25 or 30 neighborhood residents that we have been working with may not be representative of all Model Cities neighborhood residents or, in fact, all residents of the District of Columbia. That is a factor we will have to consider at some future point.

You may be also interested in knowing, in terms of the first presentation of this workshop, that in the second phase of our study we are working very closely with an institution in Washington, D.C., which up until recently had served as a home for unwed mothers and which is at this point providing a day care service. But this institution is equipped, as most potential providers of day care are unequipped, to know what the community priorities and preferences are, or even to know what the potential clientele is within the boundaries of two or three continuous census tracts. So the evaluation procedures would enable a potential provider to assess very quickly -- and when I say quickly I mean within a space of about three months -- what the need is in the community, who the potential clients are, and what the priorities are in terms of infant day care, crisis day care, 24-hour day care, and so on. We are also getting some information about the amounts of money that community residents would be willing to pay for various types of day care arrangements.

We think that the study is unique in that it is aimed at groups in the population which are not trained in social research by any stretch of the imagination. These are groups which do not possess research expertise, but which are finding themselves in the position of having to produce some evidence -- evaluation-type evidence -- that day care is badly needed in their neighborhoods, that it is needed worse than perhaps in other sections of the city, and that there will be some return for the amount of money invested in day care service.

* * *

MS. LAWALL: Is there any basic philosophy that you are going to apply to utilize the cost information about evaluation that you do collect?

MR. ZAMOFF: I am not prepared to answer that question with certainty. I think it would be the Urban Institute research staff (and not just the evaluation staff) which would be contributing to the project at that point. There would definitely be a point of view, but I do not know what that is.

MS. ROWE: I am still not precisely clear about the relationship between your interests and the questions of costs and pricing. For an economist there is no such thing as demand without a price attached. You ask what services at what cost and there is no such think as supplying it without a discussion of what services will be supplied at what price. Won't you, in fact, be drawn more and more into the financial side of it?

MR. ZAMOFF: Yes. I think we have been. I didn't mean to indicate that we are not asking any questions that would reflect cost. I am just saying that the preliminary study has been basically designed to assess the kinds of output that community residents regard as vital to the success of the day care arrangements that their children are in.

We are checking the cost information. There will be an attempt to see what the priorities are and attach those priorities to dollar figures.

THE ECONOMICS OF CHILD CARE: TWO CRITICAL GAPS

Mary Rowe, ECONOMIC CONSULTANT

There are two critical gaps in the field of day care. First is the gap between what we know and what we need to know in a hurry. The second is the gap between what people can and will pay for child care and what the real cost of good child care is in this country today.

First, I'd like to expand on the gap between what we need to know in a hurry and what we do now know about the supply and demand for child care. In the past six months in the Massachusetts Early Education Project, we have done our best to bring together all of the literature of the 1960s and 1970s -- the child development literature pertaining to child care programming, as well as the cost studies available to us.

Why do we need to know all about it in a hurry? Why are we here today instead of gathering further information, waiting and/or helping with the further research that needs to be done? I would say there are five reasons. One is the change in the labor force. In 1948, 10% of the labor force were women. In 1970, it is climbing toward half, maybe 42 or 43%. In addition, something like 42 or 43% of all women with children under 18 work. The second reason is the equal employment opportunity problem, for women and for blacks. Many people have come to feel that unless kids are socialized early into the middle-class patterns, they don't have a fair shake at a middle-class life. Whether or not you agree with this proposition, it motivates a lot of the government interests.

The third reason is welfare reform, of which I will speak further. My fourth reason has to do with a reviving emphasis on the family and on family life in America; perhaps it is motivated partly by our increasing anxiety about our society as it is. And finally, a fifth reason, to which research evidence points clearly and indisputably, is the fact that early childhood education is important to later life. We don't know yet in what ways or to what degree it is important, but it is clear that it is critical to adult development.

What do we know and what do we not know in the areas of supply and demand? Let me quickly speak of demand. We do know something about working mothers and about their present effective demand for child care. We don't know very much about the child care arrangements of nonworking parents. We also don't know very much about potential demand; that is, what people would ask for if different kinds of care were available, or even what would parents want if good child care were considered socially acceptable. Our knowledge of potential demand comes mostly from attitude surveys and I will speak briefly about them.

In particular we don't know in what ways the population that has used or is now using child care compares with the parents not now using child care. We have very little basis for saying that parents not using child care are like the parents using it, and so we probably should not generalize from present users to potential users.

The economists' question about demand is, What services are demanded by whom and at what price? We know two enormously important facts about present demand. One is that most child care is in homes. That is to say, most child care outside of the traditional care of a mother for her own child is in homes, and there has not been, in fact, very much change between 1964 and 1971.

A second major fact about present usage is that most child care is not paid for in cash. The enormous importance to the economics of child care of that second fact may become more apparent as I speak. You may be familiar with the estimate that 70 - 80% of all child care arrangements appear to be in-kind or bartered or free. Of the remaining 20 - 30%, only a small fraction of parents pay what we would call the full costs of child care.

Even of the formal, full-day child care facilities surveyed by Westat, it was found that parents paid for only about 40% of the cost of child care (if you count welfare payments as a government expenditure).

Child care in the United States, is then principally in-home, and not on a monetary basis. Organized child care, which is what we are principally discussing here today, is therefore a very different service from the arrangements now most widely used. This is chiefly important because a non-cash arrangement (child left alone, or mother or father or older sibling stays home) may seem attractive to families with little money, even though in fact such arrangements may not be desirable for the caretaker or the child. It is important because parents, voters, and legislators are not psychically prepared for the great expense of good, organized child care. If the services of a 15-year-old kept out of school are "free," how can it cost $2000 per child to care for a child in a center? Moving from an unpaid sector to a paid sector of an economy is always somewhat confusing, but it is important that we realize that our feelings about the value of good child care were formed when child care was almost completely on a non-monetary basis. Thus a legislator can say in the same breath "A good mother is beyond price . . . but we'll vote $900 a year for child care." His value structure is based on an era when mothers earned nothing (or only pin-money) and child care was "free."

But we, and our children, live in a world where good, organized care is costly, far beyond what most parents can and will pay, and the supply of "free" services does not begin to meet demand.

If we summarize the results of attitude surveys and look at present usage of child care, we would get the following four parent priorities in the following order.

In the first two places are geographical convenience and price. Parents use care in home or near home, and they want it free or very inexpensive. Many parents will put "free" first, and many will put "near home" first, but these two factors are clearly in first and second place. The demand survey conducted in Massachusetts tried carefully to evaluate the trade-off between these two priorities, asking parents how much they would pay for what distance from home. More than half would prefer to pay $15 for the care of all children in an "ideal" arrangement next door rather than travel half-hour for the same "ideal" arrangement. But many parents would reverse the order.

The third item parents value is having enough child care at the right hours. It appears that more than half of all arrangements are for other than the standard daytime working hours. And probably at least a fourth of all working parents make multiple child care arrangements. Also, over half the working mothers surveyed by Westat are away from home more than eight hours a day. These facts demonstrate the critical importance of timing, and length, of child care arrangements.

Only in fourth place are what I shall call "quality considerations" -- the characteristics of programs. It is quality considerations you find in the Westat attitude survey in which parents are asked, "Can you tell me what you want in a good day care program?" But parents can only choose among program characteristics when price, convenience, and hours are right.

Finally, I want to talk about the issue of satisfaction with child care. Many demand surveys have asked, "Are you satisfied with your present arrangements or would you like a change? For example, if you are using home care, would you like a center, or, if you are using a center, would you like home care?" My own view of those questions is that they are not very useful, basically because there are few options available. Let me demonstrate the weakness of the question. In the national landmark survey by Low and Spindler, 8% of parents presented themselves as "dissatisfied." There were also 8% willing to admit that they left their kids entirely alone with no arrangements whatever. (And that 8% is widely viewed as a gross understatement of the number of kids left entirely alone.) We might assume that all parents who have to leave youngsters unattended were dissatisfied. Were no others unhappy? It seems more likely that women without options have to be "satisfied"; women reported themselves "satisfied" because the only alternative is not to work. We really can't know about satisfaction with child care until parents, including low-income parents, have the options they need to have and the education to know what those options are and what good child care can be.

In summary, what do we still need to know about child care demand? We need to know what parents would choose over time, at what price, in terms of distance, cost, number and timing of hours, and quality, if they had options.

Let me speak now about some supply considerations. We know something about present number of child hours spent away from mothers, but in terms of children's needs and the goals earlier specified, we know very little. The economists' supply question is, What services are supplied to whom at what cost? (I did not say at what price. Unfortunately, a good many cost surveys have investigated child care costs by investigating fees paid. We know that the correlation between fees paid and cost is imperfect.)

So, we ask, What service is supplied to whom at what cost? First, how do we know what benefits or services are supplied? We have some answers in terms of child hours; that is with respect to low-income mothers who are working or in training, we know a little bit about hours of child care delivered. (Our national statistics don't even collect information on single-parent fathers. I have carefully looked at the patterns of who is using child care now in all the surveys that we know about; it seems at least 5% of all users are men, but you just can't find out this kind of fact from national statistics right now.) What benefits and services are being delivered to kids? This is the major area about which we really don't know very much. I am sure you are all familiar with one or another of the major evaluations of Head Start and Sesame Street; nearly all of the evaluations refer only to cognitive gains and even so they are controversial. The Abt study proposed to look at what is quality child care but was able only to do cost-input analysis, not cost-benefit analysis. Most of the child care programs, especially the large ones that we have seen in the last 12 years in the United States, have had at the outset multiple goals, including social ones, but the social goals generally aren't evaluated.

It is instructive to read the legislation which proposed Head Start and to know that the goals put forward for Head Start (and for Sesame Street) were written in self-awareness, self-image, social-goal language. These kinds of goals are appealing to everyone who knows that it costs the government between $4000 and $18,000 a year to take care of a murderer in prison, and who wants therefore to lower juvenile delinquency costs. But we have no way at present of measuring the noncognitive achievements of little kids or the effects on later life; we don't really know yet about the effects of day care.

So you have the continual paradox -- and I know of no exception -- of major government programs set up for social reasons, and then evaluated by major research groups chiefly in terms of cognitive gains. The researchers will always say, "Look, we wanted to measure social and emotional effects, but we can't do it yet, so they use cognitive gain measures and even those are highly controversial. We have talked recently with Dan Ogilvie. He has been working on noncognitive evaluation of child care programs. From our talks with him, it seems conclusive that we are at least four or five years away from any kind of measurements that will tell us about these noncognitive benefits. We need longitudinal studies. We need measurement indicators that we haven't got. We need some consensus about goals that we haven't got.

What can we then measure in this area? We can measure inputs. We can measure the calories fed to kids, the number of dental examinations. The Abt survey tried very hard to measure the warmth of teacher reaction to children and the quality of teacher response to children. The best we can do now is cost-input analysis. Thus, I would like to see the term "cost benefit" scratched from conferences like this for a long time.

I have discussed benefits and service in terms of child hours and in terms of input quality. Let me come to the question of what costs are. I will discuss costs in terms of dollars per child hour or in terms of the costs of inputs: a certain level of space, a certain level of feeding, a certain amount of warmth delivered to a child, a certain amount of staff-time. When the Abt team first looked at the enormous variations in cost per hour that were detailed by the Brandeis and other studies, like most economists, we asked ourselves about the sources of variation in cost of child care in the United States.

As did Keith McClellan and others here, we came to the conclusion that we would have to set up some kind of functional budget. From these budgets and their analyses we find three major sources of standard program activities. The first is differences in production process, that is staff-child ratios. The second is pricing characteristics, that is, regional and urban/rural variations. But by far the most important, if you are to relate one cost study to the next, has to do with collection of data and definitions. (By the way one of the reasons that we were so delighted to hear Keith McClellan this morning is that in our first site visits for the OEO study just released, we ran systematically through the mistakes he urges you to avoid in learning to collect data and define terms.)

We found the following points very important. First, the most basic definitions, such as "staff-child ratio," have to be used very carefully. There is just no way of comparing one cost study to the next unless you find exactly what is meant by, say, a number of child hours. Are they contact hours between teacher and child? Do they include administrators and if so, on what basis? Are they the hours a center is open or the hours the child is in the center? And so on.

The second point is the problem of collecting cost data. I have consulted privately now, I suppose, with at least three dozen operators, and in connection with Abt, we have consulted with maybe 60. We have yet to find a day care operator who knows right off what his real costs are, though he may know quite a lot about his fees. You just can't come up to a man, even if he has been running the place for two years, and say, "What are your costs?" It takes hours of working with him, with his willing assistance, and examining this records to know where his is really at, and it takes hard digging to uncover all the resources in-kind and all the volunteers.

Production process questions were investigated as sources of variation in cost. Like everyone else, we were concerned with staff: the staff-child ratio, staff qualifications, staff continuity, and the use of volunteers. We looked at the age of the child as a source of variation, as well as different income and SES characteristics of child, part-time versus full-time and year-around versus seasonal/programs, and space and equipment costs.

We addressed the question of whether sponsorship and delivery systems (or family day care) had any demonstrable effect on costs. We looked carefully at issues of supplemental programs, start-up and growth costs, and finally, economies of scale. I will run through most of these points very quickly; Mr. Warner's presentation will also discuss these questions.

We designate as a "fully costed budget" that budget which includes and imputes costs to all donations and all in-kind factors, such as space and volunteers. Also we included as in-kind contributions those from other agencies which may originally have been paid for, but which were free to the child care center.

I might say that in my private consulting around Massachusetts in large and small centers, including proprietary ones, and in some systems, I have yet to find any place without volunteers and donations. Work-study people, somebody's grandparent, bookkeepers, the proprietor's wife -- you won't find a center where there aren't some volunteers, or someone working overtime, unpaid.

We have a set of worksheets to turn any budget for a child care center or system into a functional budget. It is a quick and easy process. It is something that all the day care directors I have run across understand with very little training. If you turn the line-item budget into a functional budget and include a careful inquiry about in-kind donations and volunteers, our worksheet then isolates what we call supplemental programs. That is to say, we set up a budget form which shows the standard costs that all child care centers and systems, including family day care, were found to have. There are also varying core costs which are basic, such as health costs. Many programs had supplemental programs which I urge you, from the point of view of cost in-put analysis, to look at as primarily for adults; most of the supplemental programs that we have investigated are not directly beneficial to children.

If you take only a standard program, some 80% of the variation in cost will be explained by the following factors: staff-child ratio, salary level, and regional price variations. Factors of minimal importance are whether care is family day care or in a center; in a single center or a system. Costs vary by age of child principally because staff-child ratios are more favorable for infants, so investigating staff-child ratios will give you variations in cost for different age groups.

A word about price variations. We did not have a large enough sample to construct our own regional price deflators. We therefore used the National Education Association Teacher's Salary Index to deflate costs. It is of interest to note that salaries vary around the country, say from Mississippi to NYC by as much as 100%.

We have not found any evidence that formal educational qualifications of staff make any difference to the excellence of staff. We have found a lot of evidence -- consistently -- that the warmth and the quality of the response in a center is highly significantly correlated with the staff-child ratio, however defined. The administrator-child ratio is an even better indicator of warmth and quality than the teacher-child ratio, although both ratios are highly significantly correlated with warmth.

These facts cast doubt on the possibility of economies of scale. In the centers we looked at, some larger centers "spread" their administrators, especially the director, pretty thin. We were also concerned with the apparent drop-off in warmth and quality in some large centers. Now, an economist will say that there is no economy of scale if the large-scale operation produces a different, lower-quality product, so we feel there may be no economies of scale in single centers.

What don't we know about the supply considerations? In general, we don't know very much about the characteristics of services being delivered to kids, although we do know something about child hours being delivered to a certain group of parents. And we have only a sketchy knowledge of inputs. That defines the first gap I spoke about -- what don't we know in a hurry about supply.

Gap two is the difference between what people can and will pay, and the real cost of good programs. I won't say very much about this, but I urge you again to think as you hear what a fully costed budget really mounts up to for a good program, about the enormous gap between what parents are now paying and what excellent programs cost.

I have been trying to construct demand curves showing amount of given service demanded at a given price. I am speaking now only of well-staffed child care -- Federal Interagency Guideline child care with a staff-child ratio of at least one to seven for preschoolers, and at least one to three for infants. For this general brand of child care, and looking at such places as San Juan naval base and Stockholm, you will find that at least - 50 - 75% of all parents, probably 90%, in a given area will use free, excellent, near-to-home child care regularly, at least part-time. At the other end of your demand curve you will find that fewer than 1% of all parents will pay the full cost of child care costing over $40 per week per child. If any of you have done studies which can add points to the demand curve or show me that the picture is more hopeful, I would be very interested indeed.

What do these two gaps mean? They mean to me that we need a great deal more information, especially about the kinds of services being delivered to children. We really need more research studies, especially longitudinal studies. We need also to foster diversity, first because parents need options, second, because we don't know what's best, and third, because there may not be one "best" kind of child care.

The average age of most of the centers and systems in our study was about three years, supplementing Keith McClellan's view of the half life. We really don't know very much yet about why this is so. Fostering diversity in delivery systems is probably the only way we will find out. And finally we need to think how to mobilize every conceivable source of funds and volunteers to meet the funding gap.

MR. HOLLAND: There are two things that brought to my mind the problems we are dealing with right now. One has been discussed here, the in-home care. We are finding this much larger than we ever envisioned in the beginning and we are addressing ourselves to it by the enrichment or upgrading of in-home care and bringing women into the centers for training by the staff.

The other thing is, does your sample include anything on the before- and after-school care which is blossoming tremendously in our area?

MS. ROWE: Yes, it does. We might talk about that later, if you like. The family day care system in New York had something like 3600 kids when we looked at it in November and it is well up in the 4000s now. It has a lot of before-and after-school care, and so do Kentucky and Houston and Berkeley.

MR. McCLELLAN: I would like to reinforce one of Ms. Rowe's observations about the relationship between the education of supervisors and the quality of output. My observations in some 60 centers reinforce that.

MS. ROWE: The study recently sponsored by OEO would lead you to the conclusion that if you are a day care operator, you want to put your money into more staff rather than more highly qualified staff.

DR. ANDERSON: I have two questions. Since there is little relationship between training or formal training and what you call quality, what does quality relate to besides just the number of people? Did you find other characteristics that related to it besides just plain numbers?

MS. ROWE: Yes, but it's anecdotal evidence. We asked directors fairly systematically their views about excellent staff. We have anecdotal evidence that would lead you to believe that directors feel that their staff is better if they are generally like the students on a balanced basis, that is, of the same race and economic and community background.

Second, directors very much like their teenage and grandparents and oddly-aged staff. They were very much interested in cross-age programs. In-service training seems critical. My own feeling is that directors have a sense of the kind of staff they want and that if the director likes the staff and the staff likes the director and they both like the parents, the thing swings and you then get a warm center.

That is not a very objective discussion of the matter, but I have seen it many times. The real test of a good center is to ask if the kids are happy and are the parents happy. Do the children regularly come or is absenteeism high? Are the kids withdrawn? Are they crying? If you accept that kind of measurement, you get a very quick picture of what good centers, good staff, and good directors and happy parents are like.

I would like to say one more thing about the pseudo difference, as I see it, between so-called custodial care and developmental care. You may be familiar with Bereiter's 1971 survey of the literature on the effects of early childhood education. Bereiter programs had been shown in many studies to produce first-grade readiness better than Montessori programs. Bereiter's point is, therefore, I think, all the more important. He found the following things in his recent summary: one is that kids with no preschool background going into a Bereiter kindergarten do as well at the end as children from any other backgrounds. That is, all preschool programs wash out in a good kindergarten year. That is a 1971 conclusion of considerable interest because there appeared to be information in the 1960s that led one to believe that certain kinds of preschool programs were doing better than others on cognitive gains.

Bereiter's second conclusion -- and he was speaking about large-scale day care programs -- was that there is as yet no basis for drawing a distinction between developmental and custodial programs, that a good custodial program is going to be doing the same thing as a developmental program. There is very little difference between a well-staffed custodial program and a developmental program in terms of cost: it is on the order of 10% of a budget, at most.

I would like to see that particular distinction forgotten. If you have got a really good -- that is warm and responsive -- program, so far as we know, it has favorable staff-child ratio. You can't tell any difference between the products of that program -- whether or not it was a Bereiter-Engelmann, or a Weichert, or a traditional, or a Montessori, or anything else -- after the kids have been a year in the kindergarten. But to have a program warm, you need favorable staff-child ratios.

Back to the question about after-school programs and where they might be. The evidence is plentiful that parents want their kids based at or near home. I suggest it illuminates a good many of the problems that industry-based day care has run into in the Soviet Union and here.

Industry-based day care has to be more difficult than community-based day care. My own experience with New England Life Insurance, some Wall Street agencies, the AT&T study, and KLH lead me to believe that industries have a lot of problems with parent participation. (If anyone is interested in parent participation, I urge you strongly to read Dr. Robert Hess' comprehensive survey of what we know about the costs and benefits of parent participation.)

DR. ANDERSON: You talked about in-home care versus something else. When parents ask for in-home day care, are they thinking of someone coming into their home and taking care of the child, or do you mean by "in-home care" in a family home, out of the child's home?

MS. ROWE: Let me cite the 1971 Massachusetts survey, which I know best. Most such surveys ask, "Where would you most like your child?" If it is a good survey, it is asked both as an open-ended and a multiple choice question.

You will find that "in own home" comes first and "in somebody else's home" is far ahead of "in any formal organized facility," including public kindergarten. You could predict across the country that 80% of all parents, especially if they have no option, if they had no experience with excellent, nearby organized facilities, will say that they want their child in the home.

DR. ANDERSON: Either in their own home or in a family home?

MS. ROWE: That finding is very highly correlated with age of child, with number of siblings, but not with income. That is to say, parents of children under three years old, are very much more likely to want the child in a home. Parents of siblings coming home after school are very much more likely to want their children in a home.

But it does not much matter what income class they are in. The finding that most parents want their child, if not in a home then close to home in an organized facility, is not correlated apparently with income.

MR. PITTAWAY: I would like to underscore one of the qualifications that you made in that statement because I think it is very important and it also underscores some of the comments that were being made by the previous speaker.

You qualified that statement by saying that this is also a function of the knowledge that parents have of quality day care and that availability of day care within their immediate vicinity.

MS. ROWE: Absolutely.

MR. PITTAWAY: So the factors change radically. As day care becomes available, as the supply increases and their knowledge about quality day care increases, their whole concept of in-home care changes.

MS. ROWE: If a center is free, excellent, at the right hours, and within the walking distance of a child's home, we would imagine that 50 - 75% of all parents would use it at least part-time, at least some of the year. At present -- and I refer now to low-income mothers working or in training -- we think that about 80% of those people want their kids in the home, especially if the children are young.

MR. PITTAWAY: This also underscores a previous point you made -- that you cannot compare populations that use child care with populations that do not use it because this knowledge factor has a very important bearing on how they answer that particular kind of question.

MS. ROWE: I agree.

MR. ROMA: You mentioned that the staff-child ratio, salary level, and regional price differential accounted for about 80% of the center's cost?

MS. ROWE: Of the variations in standard core cost.

MR. ROMA: What about the size of the center? Is there an optimum size?

MS. ROWE: There is an in-house difference on the Abt team on this point. The majority feel that if you look at the experience of the largest centers, you will find an apparent economy of scale. The administrators are spread, in effect. The minority opinion is that if you look at our indicies of quality and warmth and correlate them with size of center, there appear to be some problems in large centers. The inverse correlation between center size and "warmth" is still apparent, although not statistically significant even with staff-child ratio accounted for. This minority opinion is heavily underscored by all those child development studies about what happens if you get lots of kids in one place, and lots of parents to deal with.

I cannot compare studies since there are no adequate longitudinal studies of any of these problems. Goals and instruments and observers vary. But with all those provisos, the evicence from the Abt survey strongly suggests that larger centers have difficulty in maintaining warmth and quality. It might be a selection problem. Maybe the kids that get into larger centers are more likely to be problem children. Maybe the teachers who choose larger centers are basically less "warm." You could name many similar difficulties with the research on this.

So my attitude is, since we don't know that quality is being maintained in larger centers, we cannot yet discuss economies of of scale. The Westat survey tells us the modal of size of center. The modal number of kids in centers is 13 - 29 children, and three quarters of all centers have fewer than 45 children. I do not think this happens by chance. It might be the result of funding constraints, but I think it is also because smaller centers do better in many ways. It may be that smaller centers are nearer home, or are more responsive to parents, or more often have teachers who are community residents. Maybe smaller centers just get parents who are a lot alike and they are the ones that survive.

MR. SCHNEIDER: You were saying that as the parents become aware of what good quality center day care is, there will be a tremendous increase in the use or the demand for it?

MS. ROWE: No. I said, if it is free, near home, of the right number of hours, and, finally, if it is excellent, there will be a tremendous increase in the use.

We know only a few points on a demand curve deriving from a collection of inadequate studies. (In none of them is the product properly specified.) The demand curve for "good" day care, as I see it, is like this: somewhere between 50 and 90% of all parents will use excellent care if they pay very little, if it is nearby, and if it is the right number of hours at the right time. Fewer than 19% of all parents could or would use the same day care if they had to pay full costs of $40 per week per child.

MR. SCHNEIDER: Are you saying that based on the type of day care that we can come up with a really bad estimate of how much we need? If so, how about doing something about it? We are not trying to plan bad child care, whether people believe it or not. We are trying to plan good child care. This is the first time I have seen this kind of input or this kind of paper presented in terms of how planning is going along with need. I know I have not seen any good studies on estimated universal need. There is only one person that is really doing any work and she is working alone. She has had no input from anybody.

MS. ROWE: But the question is, What is need? Is the need myself as a working mother or my sister who would work if she had child care? There are no good studies that show that the availability of child care affects the work experience and productivity of women. Probably day care is necessary but not sufficient to get women to work. We need longitudinal studies and we have none. Countries like the Soviet Union that have some longitudinal studies are so different that we cannot compare them to our own experience. But even defining need is difficult. We really need to know what parents will do if they have work and day care options.

MR. SCHNEIDER: Meanwhile, you still have a bill that gives you $50 million of construction facilities and obviously it is inadequate to begin with, but no one has really documented why. We are stumped at things like that.

MS. ROWE: There are some things we know about need. There are the abused children. There is that minimum 8% to 10% of all children of working parents who are completely left alone, some of them under six. There are the kids who are in rat-infested environments and those without adequate medical and feeding care. If you wanted to begin a layer-by-layer building up of categories of children who need care that we could probably in this room entirely agree on -- which might be the only thing we would all agree on -- you would have a very large population of children needing care. One-sixth of the nation's kids live in poverty families according to Current Population Reports for March 1970.

MR. OGILVIE: I am sure you are much more conversant with the Coleman findings than I, so correct me if I am wrong. It seems to me that his findings were a little contrary to what you found. He found primarily that the teacher-pupil ratio had little impact, whereas the quality of the staff had a more significant aspect. Could both findings be correct, yours and his?

MS. ROWE: There are several major differences. One is that he looked at cognitive gains. We were looking at teacher input. We were looking at warmth and a positive response -- if the child was positively redirected when he was found clobbering somebody with a block, or did the teacher ignore him, that kind of thing.

A warm response is when a child comes and goes, asks questions, brings something to the teacher for approval, and, in a specified circumstance, when two observers agree that the response was warm. We are looking at that. Coleman was looking at cognitive gains. The cognitive-gain measures usually show that formal education of staff is weakly to strongly correlated with advancement in school-age children in formal educational institutions, a population that we weren't looking at. Also, Coleman was looking primarily at a relatively narrow range of high staff-child ratios; we were looking at a broad range of low staff-child ratios. I do not know how familiar you are with the testing procedures for little kids under four, and especially under three; there is very little that you can pick up reliably except for gross abnormality and serious organic impairment, and so on. You just can not ask the Coleman kind of questions with under four-year olds and expect the answers to have any degree of reliability at all.

MR. OGILVIE: Given the Coleman findings, would it be safe to conclude that if, instead of warmth, you had tried to measure cognitive gains you might have reached the same conclusions?

MS. ROWE: I'll refer to the Bereiter study which deals with the same population I have been dealing with and which found that all prekindergarten experience washes out in one excellent year with a Bereiter kindergarten. But do you want to concentrate on cognitive gains? To me warmth and responsiveness are important.

MS. MILLER: Should we than perhaps place our maximum efforts into good kindergartens?

MS. ROWE: If you were concerned with normal children, which might even be a minority, or if you were concerned only with cognitive gains and only with children, not with parents or communities, then you might want to concentrate on kindergartens. I think we are not concerned only with normal kids. We are also interested in kids that we would define as not average in our middle-class society. We are not only interested in cognitive gains, but also interested in whether kids grow up happy, productive, wanting to work, and that sort of thing. Finally, we are also interested in parents, and most of the legislation is for the benefit of parents.

MS. MILLER: But in terms of fact, for instance, where we are approaching an enormous population and unable to handle a good part of it for many years because of the structures of numbers, might we then better think in terms of kindergarten and not apply ourselves to children younger than five?

MS. ROWE: It would not in the least serve the purposes of the legislation, which is to reduce the present welfare role, as I understand it. The cost-benefit analysis, if one reverts to that awful phrase, if there is to be such a thing, cannot escape using two populations -- kids and parents -- in analyzing benefits. The government insists on putting in what happens to welfare costs.

MR. McCLELLAN: I would like to comment on your observations about the optimum size of day care centers. Isn't there a value judgment associated with using meaningful exchanges between adults and children as an index of warmth and quality? It assumes adult role modeling as contrasted to peer-group role modeling.

MS. ROWE: There are lots of problems with it. The Abt group would like to raise a question about whether large centers will, for most parents that we know about, provide as good care as small centers would. We also, by the way, just looked at whether the kids are happy or not happy, whether they are withdrawn or not withdrawn, whether there is a lot of crying, what the noise level is -- horrible, healthy, or absolutely silent -- that kind of thing.

And in addition to your question about the techniques used in the Abt study, I would be glad to raise other ones as well; we are a long way from definitive knowledge about child care quality. Even if you look just at inputs, much less output, we do not know very much about noncognitive processes. Even what we think we know, people do not agree about.

I personally feel that kids learn more through role modeling than anything else, but they model themselves after other children as well as adults. However there is a whole group of people in the Bereiter-Engelmann camp who feel that kids learn best through classic drill and instructional methods. So I agree, your question is an appropriate one. But let me then say again that I think the Abt study raises the question whether large centers are in general as good as the smaller ones most directors are running.

COST ANALYSIS FROM A STUDY IN CHILD CARE, 1970-71*

David Warner, ABT ASSOCIATES

Maybe it is time to take a look at some real numbers now that we have discussed a lot of the problems in understanding child care cost data. What I will be presenting is our modest attempt at collecting and analyzing cost data, in light of all the unresolved difficulties that were pointed out this morning and the limited amount of time we had to complete our study.

There were 20 day care operations in our study. As can be seen from Chart I, the average cost across those 20 programs turned

CHART I

AVERAGE COST PER CHILD

Per Year: $2300

Per Hour: $1.13

- adjusted for price variations
- including imputed value of in-kind donations
- based on attendance
- including transportation and supplemental program components

OPTIONAL ADJUSTMENTS

Per Year: $1430

Per Hour: $0.70

- omit in-kind donations (23%)
- omit transportation and supplemental program components (8%)
- based on enrollment (12%)

---

*Abt Associates, Inc., A Study In Child Care, 1970-71 (Cambridge, Massachusetts, 1971).

out to be $2300 per child per year, or $1.15 per child per hour. Right away I want to say that it is very important how you report costs. The same center can appear to cost quite different amounts depending on how certain crucial decisions are made.

In fact, an issue that has not been resolved is how to calculate unit costs in day care. This figure of $2300 per child per year includes the imputed value of in-kind donations. That is, we did the best job we could to impute values to all donated labor and facilities (which were the bulk of the in-kind donations) and food, supplies, and equipment, and we included those imputations in our total cost figures. We also based our figures on attendance rather than enrollment. That is, we divided total annual operating cost by average daily attendance rather than enrollment to get a cost per child figure. Dividing by attendance rather than enrollment makes the unit cost appear to be higher. Finally, we included the cost of transportation and supplemental program components where we found them.

If unit cost calculations were handled differently, cost would look quite different. In-kind donations accounted for 23% of the costs in the operations we looked at. Omitting such costs would produce a figure that would be lower by that amount. If the cost of transportation and supplemental program components were omitted, the figure would be lower by 8%. If costs were based on enrollment rather than attendance, the figure would be lower by 12%. (On the average, we found that the ratio of average daily attendance to enrollment is about 88%.) Making all these adjustments would make our cost figures appear to be much lower: $1430 per child per year and $.70 per child per hour.

Let me justify the method we selected for calculating unit cost. First, we think for purposes of analysis it is important to attach a value to in-kind donations to get comparability across centers. You have got to take some account of that or you will have very peculiar cost data, with some centers not paying anything for facilities, for example. Also, there is good reason to believe that as day care is expanded in the U.S., in-kind donations will virtually disappear. If this is true, then cost-estimates which include the imputed value of in-kind donations are much more meaningful for planning purposes.

If you omit the costs of transportation and supplemental program components, you may have, again, a misleading picture of what it is really costing to provide day care. Where we found these components, they were crucial to the operation of the program. We could not delete them and have the same program.

Finally, basing costs on attendance gives an accurate measure of the service actually being delivered. As such, it is a measure which can be compared, meaningfully, across programs. On the other hand, division by enrollment yields an ambiguous measure of unit cost, since there is no way of determining how many children are actually receiving services. The ratio of avarage attendance to enrollment varied from 78% to 96% among the programs in our study. Thus, the very ranking of programs by unit cost may depend on the choice of output measure. Surely, average attendance is the more meaningful measure.

(Let me inject an incidental remark. We didn't really look at the 20 best centers in the United States; we had no way of determining that. Even though we thought we were looking at very good centers, there was a wide range in quality as we subjectively viewed it. Thus, it would be wrong to assume that we were looking at the top 5% of centers in the U.S. Rather, the 20 centers in our study are probably representative of the upper half or the upper

40% of centers in the U.S. So we were not looking at deluxe centers altogether, and the variation in costs partly reflect that.)

We are very dubious about even talking about averages because the costs of quality care vary so greatly from program to program. The costs ranged from $1200 to $1400 per child per year in our sample of 20 programs. (See Chart II.) There was a like range in costs per child per hour ($.59 to $2.06).

CHART II

VARIATION IN AVERAGE COST PER CHILD

Per Year: $1200 to $4100

Per Hour: $0.59 to $2.06

DUE TO:

- (A) Price Differences (price index range .82 to 1.32)
- (B) Program Differences
  - (1) Breadth: existence of transportation and supplemental program components.
  - (2) Depth: intensiveness of core program components.
  - (3) Size: small economies of scale, for single centers (?)

Ms. Rowe has already indicated how we reconciled that wide variation in average costs. Part of it is due to price differences in various regions of the country and to urban-rural differences in prices. Our price index ranged from .82 to 1.32, which means that a $2300 center (national average) located in New York City (where the index was 1.32) would cost a little over $3000. If the same center were located in Tennessee (where our index was .82) it would cost around $1900.

If you adjust for price differences, the rest of the cost variation may be understood in terms of program differences which are divided here into three categories: program breadth, program depth, and program size.

Program breadth is measured in terms of the extent to which transportation and supplemental program components are present. Clearly, if center A provides transportation and center B does not, and the two centers are equivalent in overy other way, center A will have a higher cost.

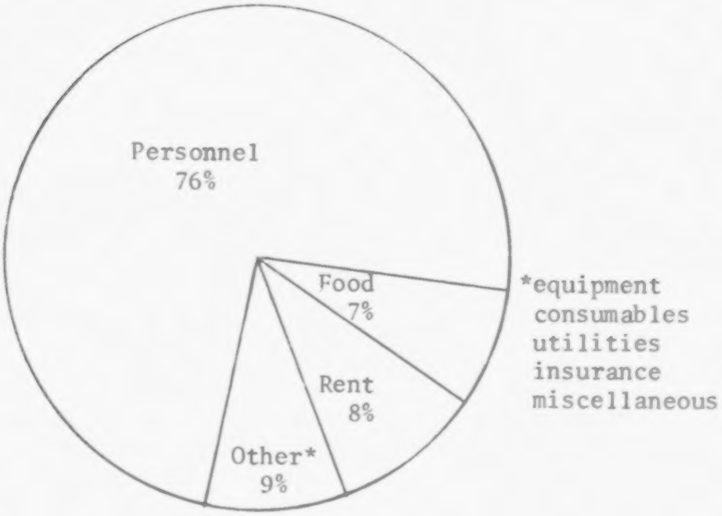
The second category -- program depth -- is measured in terms of the intensiveness of core program components. Two good indicators of program depth are teacher-child ratio and average staff salary. (Ms. Rowe has already mentioned that if costs are adjusted for price differences and program breadth, about 80% of the variation in adjusted core costs can be explained in terms of the teacher-child ratio and deflated staff salaries.)

The third category is program size. There is some evidence that economies of scale may be present for single centers, but there is a serious problem about whether product quality is really the same in larger centers. In any event, economies of scale for single centers must perforce be small if staff-child ratio is considered important for quality. Let me elaborate on this for a moment. If you believe that staff-child ratio is important for quality, then you would have to agree that this ratio must be maintained regardless of size of center. Since we know that personnel is a big part of the cost of day care (see below), it follows that you could not expect very dramatic economies of scale by size of center in day care because personnel costs are going to have to increase almost proportionately with the number of children to maintain the staff-child ratio. So if you believe that staff-child ratios are important for quality it follows that you cannot expect to find very dramatic economies of scale.

We collected data on a line-item basis. As Chart III illustrates, we found that over three-fourths of costs are attributable to personnel. When you add in food and rent, you have accounted for over 90% of the fully costed budget. The remaining costs are attributable to equipment, consumables, utilities, insurance, and miscellaneous items. Equipment costs measured on an operating cost basis, were found to constitute only 2% of the total budget.

CHART III

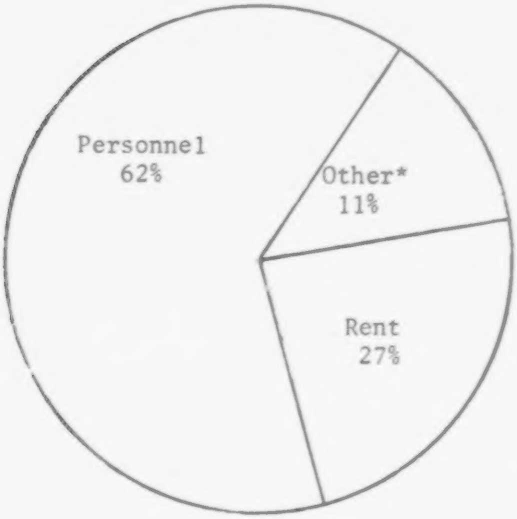
ALLOCATION OF COSTS BY OBJECT CATEGORIES



Day care programs are dependent on in-kind donations on the whole. Chart IV shows that on the average, such donations accounted for 23% of total operating costs, although dependence on in-kind donations varied considerably among the 20 programs in our study.

CHART IV

ALLOCATION OF IN-KIND DONATIONS
BY OBJECT CATEGORIES



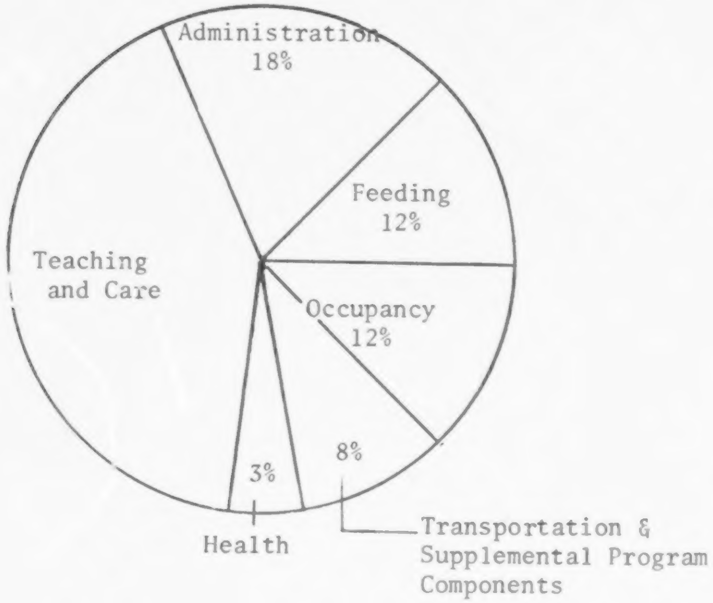
*equipment
consumables
food

(Of the 23% of operating costs which are in-kind, personnel makes up the largest portion, as you would suspect. This category consists of both volunteers and personnel paid by the other agencies (such as Neighborhood Youth Corps workers). Rent makes up over a fourth of in-kind donations , and the rest is attributable to donated equipment, consumables, and food.

How do operating costs break down on a functional basis? These are the functional categories that we defined. (See Chart V.)

CHART V

ALLOCATION OF RESOURCES BY FUNCTIONAL CATEGORIES



We avoided the problem of allocating administrative and occupancy costs to functional categories, so strictly speaking this is not a purely functional budget. Teaching and care accounts for almost half of all operating costs. Add to that administration (18%), feeding (12%), and occupancy (12%), and about 90% of all costs are accounted for. The remaining costs are attributable to health (3%), and transportation supplemental program components (8%).

MR. PROSER: Do upgrading and training come under supplemental?

MR. WARNER: Yes, except when it is done on a very casual basis. In-service training almost always goes on, but any kind of formal training program would be considered a supplemental program component.

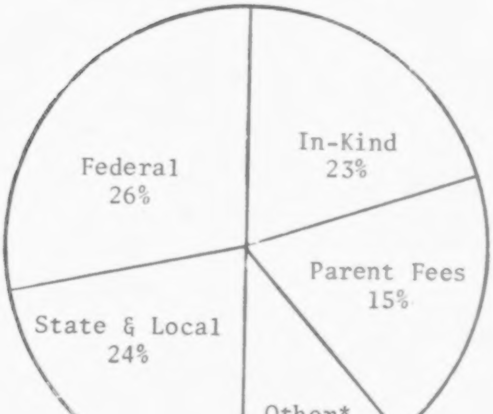
MS. BELL: If it was not an in-service training program, wouldn't it be considered either a part of teaching or administration?

MR. WARNER: No, not as we have defined our functional categories. These are arguable points, I am sure. We don't claim that this is a definitive set of functional categories, by any means.

To continue, we also collected data on funding sources. (See Chart VI.) As I mentioned earlier, in-kind donations accounted for almost a fourth of the total. Direct federal funding accounted

CHART VI

SOURCES OF FUNDS



*United Fund private donations

for a fourth; adding in state and local funding shows total government funding to account for half of all funds. (It should be noted that much of state and local funds are indirect federal money.) Parent fees only accounted for 15% and the rest was made up of United Fund and private donations.

These findings on sources of funds cannot be generalized beyond our sample with very much confidence; however, it is interesting that data on funding from much larger, more representative samples of day care programs show a similar distribution of the relative contribution of funding sources.

We inquired about the supply of inputs and found, as others have found, that there seemed to be no problem in recruiting adequate staff (except directors) at what appeared to be relatively low salaries. That supply seems fairly elastic. The findings are mixed concerning the ease of obtaining facilities. Some programs seem to be having no trouble, while in others that was a major problem.

We got a clear feeling that it is going to be difficult to continue to get the good directors at the relatively low salaries they are being paid. We suspect that that is where the enelastic supply of input is going to present the most serious problems if day care is expanded rapidly in the near future.

MR. HOLLAND: In some centers where you have joint funding some children are 100% federal or state funded. Some of the children are partially funded or fees are on a sliding scale. The parents pay and the community picks up the rest. Would this 15% be of the total budget or is 15% of what the parents pay in their own category?

MR. WARNER: This is 15% of the total budget.

MR. MANDEL: Can you tell us what kind of staff salaries are associated with these dollars and also what are the appropriate child-teacher ratios that you found?

MS. ROWE: The problem is very complex because the teacher-child ratio within a classroom ranged from something like one to three to one to fourteen, or maybe it was higher. It was the staff-child ratio in the classroom that was significant to the warmth in the classroom. For the centers as a whole, the overall staff-child ratio was very much lower. The average over-all ratio, counting in all volunteers and all bookkeepers, and all the rest, across all centers and systems, was one to 3.6. It is an apparently very low ratio, indeed.

Classroom teacher-child ratios were well within the ball park of maybe the top 60% in American child care. We are constantly being asked if the Abt study doesn't refer to the top 1% of American child care. It clearly doesn't. In staffing, it is maybe the top half or the top third, or the top two-thirds.

MR. RUOPP: What was the low on the dollar cost per child?

MR. WARNER: The range on actual money costs, leaving out in-kind, was from $470 to $3450 per child per year (based on average attendance). We found some relatively inexpensive centers, even measuring on an attendance basis. But those centers with low cash costs had incredible amounts of in-kind donations (i.e., up to 60%).

MR. ROMA: Are there any proprietary centers?

MR. WARNER: Profit-making? Yes, we had one in the sample of 20. The fact that there was only one in our sample doesn't mean anything either way about the quality of proprietary centers.

MR. ROMA: Is there any significant difference between the one proprietary center that you studied and the other 19 in any of these categories?

MR. WARNER: Yes, the teacher-child ratio tended to be higher than the average of the ones we looked at, although there were one or two others that had comparable ratios.

MS. ROWE: If you had a really well-staffed center, it would not be profitable at the present level of demand, considering the income level of people who want child care. You could have one or two such centers in any large city because there are a lot of wealthy people in a large city, but if you consider the United States as a whole, you could just about say that well-staffed child care is not profitable and profitable child care is not well-staffed. As a generalization I would be glad to try to support that proposition with facts. There just isn't such a thing as profitable comprehensive child care if the child care is well-staffed. One of the most stable things in the Abt survey is that three-quarters to four-fifths of the budgets are in staff.

MR. TALCOTT: I would like to find out how that three-quarters breaks out by the different functional areas. Of the personnel costs, what proportion would go to teachers, administrative, feeding, and the other categories you have? That would be interesting to know if you are concerned about how you could possibly get some economies of scale.

MR. RUOPP: We can show you budgets for a good number of child centers, showing the actual salary levels and the number of staff and distributions of those, if you want to look at them.

MR. TALCOTT: Do you have an indication of how they break out of financial areas?

MR. RUOPP: That gets us into a question of whether the ratio between the teacher-child care portion of the budget and the administrative budget is in some way linked as an indicator of health of the program. There is quite a wide variation in those ratios all the way from one to seven, for example -- that is, from one administrative dollar to deliver seven dollars to teaching and child care -- down to about one to two and a half or one to two.

I think somewhere Mr. Warner suggests that about $2.60 gets delivered on the average for every administrative dollar. This is on an unadjusted basis at this point.

MS. BELL: What was in his allocation by functional categories?

MS. ROWE: If you look at the 20 case studies, each has its own budget broken down by functions. One can easily compare the budget pages for systems and centers in columns 2 and 2(b). If you interest is Indian organizations or labor-union child care or whatever, you can find the one closest to your interest and see how it compares with your situation.

MR. GRASSGREEN: Was there some significant reason why you included only one proprietary center in your sample?

MR. RUOPP: There was much resistance in proprietary centers to having this kind of study done. Even for the one that we had in the study, we are not sure we surfaced all the real figures. We don't know whether they are making a profit or not, first of all.

Second, they aren't recommended by federal people -- as being notable centers -- and this is one way we gathered the sample.

MS. ROWE: I think it is inescapable to note that proprietary centers on the average have a much less favorable staff-child ratio than nonproprietary centers. If you look just at the Westat survey, the ratios are something like one to fifteen for proprietary centers and one to seven for nonproprietary centers. The number of well-staffed proprietary child care centers in the United States is just extremely small (although I am sure there are many more than we know of).

MR. SCHNEIDER: Did you look into whether this ratio varied for ages of children? For instance, might it be that you need a ratio of two to one for three-year olds, but you could get good or excellent child care for six-year olds with a seven to one ratio?

MR. RUOPP: It depends on the state, for one thing. Some states have laws or guides that day care centers try to follow.

MS. ROWE: I think the results of the Abt study would go along with the Federal Interagency Guidelines which we were, by the way, initially inclined to eye askance. The study began with the proposition that perhaps there should be a change (and, in fact, these guidelines are being considered for revision). I would say that we come out humbly on the side of the guidelines, at least for staff-child ratio.

That is to say, not more than three or four children under three-years old, per staff person, not more than seven to ten children of preschool age per staff member, and so on. It is interesting to note that if you add in all of the volunteers, the excellent centers have a much more favorable ratio then the average ones.

MR. GRASSGREEN: I am probably the only representative of a proprietary profit-making organization present. We operate 17 centers. If I remember, Ms. Rowe, you said that one of the things you look at is whether the kids and the parents are happy.

MS. ROWE: Yes.

MR. GRASSGREEN: And you are also presupposing that happy children and parents that are happy, assuming that is one of the criteria for a quality day care center, related directly to a teacher-staff-child ratio. There are people who have been in the business for 20 or 30 years whom I have discussed this with who feel that the requirements of four or five children to every adult is probably the worst type situation that we have mentioned.

They feel that the adults in a center of substantial size, of 70 to 100 children, tend to fall over each other. The children get lost. They are not enjoying themselves. Part of the educational process -- I don't profess to be an educator -- is actually the children coming in and being with each other, whether they are three or five years old.

We operate our centers profitably. Our costs are different. I think some of the problems about cost relate to poor management. I think that proper management can get costs in line and provide the same quality. I will give you an example. One of your biggest variables is food costs. We find that many people say, "Well, why don't you have institutional food costs?" I am assuming you can't get free services. I am assuming we have to buy food. Our people are all paying full fee and there are no welfare recipients at this time in our centers. That is not out of choice, but just the way it has been from the time we opened. But, for example, instead of having our director taking an eight-ounce glass of milk for a three-year old child and filling it to the top and the child throwing it away, we have our director take a four-ounce glass and fill it and advise that director to advise the child to have a second. Many times the child won't. We try to make the child feel we don't want to be skimpy on food.

When dollars are available to be spent, they are spent. The best business operator usually operates on the tightest budget when he has the least money. The person with most money usually spends the most and reaps the least profit. This is not always a reality but I think human nature tends to make you operate and watch your business more carefully if you have fewer dollars to operate with.

There are many different ways to operate centers in relation to costs. You asked about teachers. We have approximately 130 women in our teaching staff. We have no males only because we are unable to get any at this time. We would love to have male teachers. Of the close to 130, approximately a third hold bachelor's or master's degrees. The other third, I would say, have any where from two to three years of college to those with experience and no college -- what we would call paraprofessionals.

The largest city we operate in is Atlanta, Georgia. We pay our directors approximately $115 to $125 a week. Since we are trying to make a profit, we have an incentive for our directors to keep expenses to a minimum, but under our standards, and of course, to operate the center at full capacity as best they can. We have an incentive so our directors can make a salary of approximately $10,000 to $11,000 a year once that center is making a profit.

As I say, out of 17 centers, 12 are making a profit. Four are not; in fact, one of them just opened about three weeks ago. It takes time. Granted, if we had free centers near home, they would all be filled. I do agree with you that near home is probably the most important thing right now.

I would love to invite you all down to do a survey. One of the problems that we have found is that many people come down -- I am not saying from the federal government. We have probably put 20 people in business. We are in the business of making money and not in the business of putting people in business unless we charge a fee, which we don't. But we are happy to have anyone from any government-funded agency that would like to have the information on exactly what our costs are.

MR. PROSSER: Including start-up costs?

MR. GRASSGREEN: We will show you operating statements from the beginning to the end.

MR. WARNER: And what do you charge?

MR. GRASSGREEN: This will probably shock you: depending upon the area, we charge $20 per week per child for full day care service; in areas such a Columbus, Georgia, Mobile and Montgomery, Alabama, in Atlanta we charge $22.50 per week for full days.

MR. WARNER: And what is your teacher-child ratio?

MR. GRASSGREEN: We usually stay within the state requirements, probably not quite near the maximum. It just depends. But we usually operate within the state requirements. You can't say what the student ratio is. In some states it is greater and in some states it is lesser. We try to pretty much stay in a norm. We have anywhere from one to seven for two- and three-year olds and for the four-year olds we may go from one to ten or one to twelve. When we get to the older children, we have probably a greater teacher-student-ratio, with more students. We don't meet the federal government standards by any means.

MR. PITTAWAY: I would like to ask a question of Ms. Rowe. The proprietary centers are serving a different market group -- middle-income families primarily, not federally funded operations that are operating more in the poverty areas of our communities. Is it possible to have a quality day care center in a higher income group with a lower staff-to-child ratio?

MS. ROWE: Yes, but let me answer it with some illustrations because I think "quality" depends somewhat on what you want. Of the 20 centers and systems in the Abt study almost all of then were an open-structure plan which requires lots of staff time per child in this country. For instance, in the inner city West 80th Street Day Care Center in New York City, which runs a superb program, the kids get individual back rubs and stomach rubs at nap time and are encouraged to go shopping in small groups with the cook and prepare the food, and so on. Most of the Abt survey centers were open structure, with lots of adults for one-to-one attachment formation and individual attention.

We had an observer last week in an urban child care center in Tel Aviv. At that center the children were outdoors with staff ratios of one to 15 and one to 20. The kids moved in circles indoors and outdoors. They kept in circles in group activities. When a three-year old stepped out of the circle she was gently nudged back in. If one of the 15 or 20 children went off on his own pursuits, picking up leaves or sorting rocks or asking questions about the chicken near by, that child was gently asked to wait until the group had come to that subject or until the time when the group would be looking at leaves.

The basic answer to your question has a lot to do with values. If you want for your children the open structure plan of education in which your child is encouraged to become individual and creative -- a self-starter -- then you inescapably find you need lots of staff time per child (in this country).

I am willing to discuss staff-child ratios in the British infant school if you are interested, but America has a very heterogeneous society. Its low-income families, especially in the cities, can not sustain an open structure education with unfavorable staff-child ratios. We just haven't seen it done.

If, on the other hand, you are in a communally-oriented group-center organization -- if you are in that kind of society and what you covet for your child is maximum socialization within that kind of structure -- then you might very well get by easily with less staff time per child. There is no one who can say one is right and the other wrong. To each his own, within the limits of child abuse.

MR. McCLELLAN: The best managers that I have seen in terms of being cost conscious have been the managers of proprietary centers.

MR. RUOPP: We haven't gotten into the program side today very much, although certainly Mr. McClellan in his remarks indicates that the programs can't provide any kind of benefit until you make some program decisions.

One of the problems that we see right now is that there are a variety of views about what constitutes good child care for children. There is the developmental middle-class point of view about what is good for poor kids, which has a cognitive program for kids to accelerate their ability to make it once they get into the public-school stream. I think it was mentioned earlier in reference to the Coleman report.

The recidivism rate of children who have been through good day care must depend on what school they go to. The public school system is such a powerful institution that it can wipe out anything else that has happened to a child. The middle-class child goes into a public school knowing pretty well what will be demanded of him because he has learned that at home.

In the Abt study, on the other hand, we had more centers that were being run by and for the parents of the children involved in the centers than not. We had child centers being run by chicanos, Indians, and blacks. There the concern was not with cognitive studies. They were much more concerned with self-image, with power -- in the best sense of the word -- for the young child, with something that would allow him to cope with the kindergarten experience and stay alive when he made the transition from all black centers in which there was an immense amount of pride into another kind of institution.

I am not persuaded by the staff-child argument at all. I don't think we know what we are going to need to know about the staff-child ratio until we decide that people should set their own program goals or until we get a national goal specifying what is good for young children. I don't think we will get a national goal. Ms. Rowe says, "Let a hundred flowers bloom," and I think that is what child care ought to be about.

Two centers that were very promising were the Central City day care center in Salt Lake City, whose black director made it up from being a bus driver, and a center in Greeley, Colorado, owned by chicanos, which is now working on an articulated bilingual program for the kids. There the parents, not the experts outside, determine what ought to be involved in the program.

It seems to me that we are talking about totally different markets. I don't want to get into the proprietary aspect. I could make money running a proprietary center for wealthy professionals. We looked at models with $3000 per child per year for apartment buildings where both parents are working and their combined income is above $40,000 a year. Now do you think you could make money from it?

The real policy questions to me are the critical ones which relate to who is going to determine what happens to kids -- the federal government or the parents of those kids or the state government or the local government -- and how can we wed the taxpayer's dollar, which belongs to the taxpayer, to those purposes and aspirations of local control.

The parents should evaluate their own programs. Central City is doing a marvelous job this coming year in defining how parents can run the evaluation system where they monitor the program.

As far as teaching goes, as far as management and functional budgets go, the parents' group are going to take over the whole thing and learn those skills so they don't have to hire consultants from the university to tell them what is going on.

MR. GRASSGREEN: Many times parents are not getting really involved in the program, and I as a parent see this in my own home. We have a program in day care where the child goes to the day care center and she comes back and you say, "What did you do today?" You know they did something but they come back and they say that they played or colored or something like that. I am not saying our program is the best, but we have implemented parent education. We try to have the child bring home every week a letter to the parent advising them what the child has done and requesting that the parent continue the educational learning process so he can actually become a good part of the society.

MR. HOLLAND: I am not against proprietary day care. I know some of it is good, but proprietary centers are in the business primarily to make money. On the other side of the coin, they are in business for children. I have never found proprietary day care that addressed itself to the total child. I think the child has many parts, not just that part that goes into the center.

MR. STAUFFER: You established a range in average cost from $1200 a year to something over $4000 a year. Wasn't it a real can of worms to boil this average cost down in each of the facilities? That would be my first contention. Once you have sorted it out and you come up with this what constituted the difference?

MR. WARNER: The first factor is difference in prices by region of the country. There is a significant difference in prices, especially salaries. The second factor is program breadth - that is, the existence of transportation and/or supplemental program components, such as social services. The third part of the explanation is in program depth, as measured by the staff/child ratio and average staff salaries (adjusted for regional price differences). Please refer to the discussion of Chart II in my formal presentation.

MS. ROWE: I think the important point is that child care costs are highly predictable. When we began a year ago we were intrigued by the variations. I think we could now take a budget from anywhere in the country and, knowing its supplemental programs, its staff-child ratio, where it is in the country, and what the average salaries are, we could predict costs within narrow limits.

MR. STAUFFER: Do you have this in your report?

MS. ROWE: Yes.

FAMILY ASSISTANCE

DAY CARE IN VERMONT

Robert G. Stauffer, FAP DAY CARE PLANNING FOR VERMONT

I am standing in for Kathleen Futrell to do three things. One is to advise the group that we have prepared in the state of Vermont a set of planning papers for starting a day care service program that would respond to the needs of a Family Assistance Program if it were implemented in Vermont ("Evaluation and Experimentation in Child Care," Family Assistance Program Planning Papers, Vol,. 6 [Vermont Family Assistance Planning Unit and Mathematica, Inc., March 1971]).

The second item is a survey we have conducted of the low-income population in Vermont, and we have a preliminary report on some of the findings ("Report on the Baseline Survey and Cost Projections," Family Assistance Program Planning Papers, Vol. 5, Ch. 2 [Vermont Family Assistance Planning Unit & Mathematica, Inc. March 1971]).

Third, Kathleen Futrell, who got the flu this weekend, prepared a paper which I am going to read. She said that if I read it with enthusiasm it would take 12 minutes.

In this brief presentation I will limit myself to a few of the issues which the Vermont Family Assistance Program Child Care Project has dealth with. We have been particularly concerned with 1) defining existing child care arrangement patterns, utilization of day care in the state, and costs of day care to Vermont working mothers. (I am talking now more from the point of view of planning as opposed to operations); 2) defining the potential child care demand and cost under a system like the Family Assistance Plan; and 3) developing a child care delivery system under a Family Assistance Program which would rapidly generate new and expanded center and home care facilities for children of working mothers and separates the costs of program and facility development from the cost of the services actually delivered to the child.

As evidenced by our statewide sample survey of low-income families Vermont, we are going to be serving members of a low-income population which numbers about 21,813 families. This includes 60,500 children, or about half of the children in the state under 15.

I would like to make a few comments about the existing care pattern for low-income children in Vermont. At any given time during the normal work day, an average of 61% of the children whose mothers work outside the home do not receive care or supervision aside from being at school. If the remaining 39% of the children for whom care is considered necessary in order for the mother to work outside the home, this is the way the care arrangements break down: 54% of care arrangements are with another member in the household; 13% are with a friend or relative outside the household; 14%, a hired sitter in the household of the working mother; 16%, a hired sitter outside the working mother's household; and 3% in family or group day care center or home. That adds up to 100%.

Of the existing care arrangements 97% are either free or paid protective baby-sitting arrangements; 3% fall into the day care center or home categories. It becomes immediately obvious that few private or public child care homes or centers have been utilized by working mothers. In large part this because such sources are available to the low-income population.

At the time of the survey, there were approximately 839 spaces in 51 licensed private and public centers and homes in Vermont. The Title IV-A program was just beginning to provide substantial support for children of low-income working mothers, and there were very few full-day Head Start programs. Consequently the majority of the limited number of licensed places were inaccessible to the low-income mothers. Yet approximately 50% of the working mothers say they will use such facilities if they are made available. This is supported by the fact that of those working mothers who knew of available day care in the form of a home or center, 42% used the facility.

Sources of care, either paid or free, during unusual hours are not available or not used. A surprisingly large number of working mothers need care arrangements during unusual hours. Of low-income mothers who work outside of the home, 34% work after 6:00 P.M., 9% work before 7:00 A.M., 34% work on Saturday, and 25% work on Sunday.

The average weekly cost per child of $9.60 is low compared with current average budgeted costs for a publicly subsidized care program in Vermont, which averages $24 a week per child. This reflects the cost differential between baby-sitting and developmental care. What these costs do provide is a measure of the nonlicensed child care economy.

The FAP bill does offer the parent the choice of continuing her existing arrangement, and ceilings must therefore be established for allowable day care cost exclusions. For the total low-income employed population, 70% of the children under 14 years of age have no child care costs and 29% of the children are cared for at a cost of from $1 to $20 a week. Of that 29%, 21% incur costs of from $1 to $10 a week and 8% from $11 to $20 a week. Nursery school costs are included in these cost figures for preschoolers.

To this point, our discussion has focused on mothers employed outside the home. However, low-income mothers in the home constitute a substantially larger group. There are about 16,000 families where the mother is either working in the home or unemployed, as compared to 5600 families where the mother works outside the home.

Those mothers unemployed or working at home are not unaware of the problems involved in obtaining care arrangements. Nearly one-fourth of them have made child care arrangements in the past in order to take employment outside the home. Yet the overwhelming majority -- 81% -- did not feel the lack of child care services was an obstacle to employment outside the home. Thirteen percent indicated they might look for a job outside the home if child care services were available: this is 13% of the entire low-income population of mothers who were unemployed and working in the home, it includes mothers with children of preschool age.

Despite their reluctance to seek employment outside the home, 39% of the mothers in the home expressed interest in taking care of other children for pay if it were possible for them to receive training and other assistance in setting up care centers in their homes. This would represent an absolute number of 6200 mothers. Interest has been expressed in using low-income mothers to provide care in the programs developed for low-income children. These findings indicate that serious thought should be given to incorporating some of these at-home mothers into the development of new programs.

Now let's focus for a few minutes on program eligibility and demand under FAP. From our survey it was determined there are 5870 children of FAP-eligible families in Vermont that are potential participants in an FAP child care program. There are an additional 11,060 children from nearly-eligible families. Approximately two-thirds of these children are of school age and require before- and after-school programs, not preschool licensed centers and home care.

Annual costs of FAP child care services for all of the eligible and nearly eligible children could run as high as $18.5 million in Vermont. This includes $4.5 million for just the FAP eligibles. These rough estimates of cost relate to adjusted child care demand and are based on the following assumptions:

1. Preschool care will cost on the average of $1200 per year per child. Although below the figure used in the FAP bill for costs nationally, it is assumed that some children will remain in existing care arrangements and that there will be variations in costs of licensed care by type and size of facility.
2. Care for school-age children will cost on the average of $600 per year per child. Use of before- and after-school care will vary directly by the age of the child and his parent's assessment of the need for supervision and by types and numbers of programs made available.
3. The federal government will support a partial subsidy system for those almost eligible and can recoup at least 5% of the service costs through parent fees.

Based on these assumptions, the costs are staggering for Vermont, particularly in view of the fact that these projected costs include no facility or program development grants for the central administrative costs needed to start statewide child care systems.

The Vermont program, in anticipation of an FAP child care program and the special needs for quickly responding to mothers working and in training, has attempted to separate facility and program development costs from the costs of actual delivery of services to children by providing financial assistance programs for facility renovation and for start-up working capital to licensed operators participating in the program. Generally the two types of assistance are grant and service contracts. These would provide for renovation or conversion costs in the facility up to a certain maximum according to the type of facility and number of spaces committed to the program and would include an advance of working capital in conjunction with a service contract.

Until a level of child care services and vacancies is maintained in major employment and service centers, these contracts seem to be the way day care services can be made available to mothers working or in-training, where and when they are needed. However, the costs are high. Basically the question becomes, Can we afford to encourage, through a system of subsidized child care, mothers to leave their homes and enter the work force in view of the sheer numbers of children involved? If we adopt a policy of encouraging mothers to work, particularly those with preschool children, what kind of care are we willing to commit ourselves to provide?

The costs of operating a fully developmental child care center for children under the age of six are far greater than those of operating the school system for older children. However, we are striving to find a perspective or way of keeping costs within reason. Perhaps with a bit of New England conservatism we could deposit the notion of a middle-developmental care concept for this type of support program. It all boils down to, What are we buying for the publicly funded support of day care?

* * *

MR. BYRD: Is Vermont like the state of New York, appropriating "X" number of dollars for facilities development?

MR. STAUFFER: No, we are presently working under a demonstration-type project with HEW. This is in conjunction with planning for FAP to develop centers with federal assistance. The state to date have not appropriated funds for the development of facilities.

MR. BYRD: In my research I have found that there is very little federal money for construction of facilities.

MR. STAUFFER: We are not constructing facilities; the program calls for renovation or conversion of existing facilities and the type of program we are talking about would provide assistance for a day care center, which means 12 or more children in the license code, not to exceed $2500. This $2500 of assistance is primarily to help the facility meet the licensing criteria, such as fire marshal's code and health inspection -- essential protective types of renovation.

MR. HOLLAND: I would like to add one thing. Although we have the FAP contract in Vermont, a large portion of which is to demonstrate child care, there are restrictions and guidelines that are incumbent upon us in this contract. We do have an overall program -- a statewide day care system of a comprehensive child development care -- of which FAP is part. We have been utilizing the 4-C concept. Although the FAP money is restricted to working mothers or mothers in training, through the mobilization of resources at the local level we are encouraging child development regardless of whether the mother is at work or not and we are getting community support and community dollars for this.

Our orientation is toward the child, although we have to recognize the benefits that come from FAP. We do have a child development program. In nine months we have seen a 600% increase in the number of facilities. We have an increase of a little bit better than 400% for low-income children in centers. We find that as we go along we think we are going to iron out the problems, but as we get bigger the problems are bigger and we have more to face.

MR. PROSSER: You said that the cost was $9.60 per week. Is that what parents are paying on the average?

MR. STAUFFER: Yes.

MR. HOLLAND: This includes the welfare check and everything, doesn't it?

MR. STAUFFER: No, it means what the parent pays per week per child and it means for a baby-sitter in the home or a baby-sitter outside the home or subsidized care in the day care center. It covers the full gamut of care that would be arranged for and paid for by the parent.

MR. OGILVIE: Does that mean that, as in the Abt study, the figure might represent 15% of the total cost, or do you have a feeling that it represents all or substantially most of the cost? You will remember that the Abt chart showed that of the total cost, the parent fee represented 15%.

MR. STAUFFER: No, dollar amounts wouldn't help us compute what percentage the parents are paying to centers because it encompasses much more in terms of care. Every paid source of care is involved in the $9.60, not just centers and homes.

MR. HOLLAND: Our costs have run considerably different from the Abt in parents' fees.

MR. STAUFFER: If we were to speak of costs in the day care home or center, the average cost per child would be a different story.

MS. WISHER: Not only that, but the breakdown on the funding sources is considerably different.

MS. ROWE: Let me put the Westat and Abt figures in perspective. Westat is something like half parent fees but a large part of this is from welfare organizations. Abt is about 15% parent fees. It would have been much lower than that but for the proprietary center.

What the funding breakdown really show you is that the opportunity money available for organized child care is very low because the foregone alternative for the mother is to leave the child with her sister or leave the child alone, or something like that.

In Vermont 70% of the children are cost-free children. Where did your new day care slots come from? Are they in family day care?

MR. HOLLAND: They are in both home and center care and represent at the present time almost 100% in Title IV and community funds.

MR. HOLLAND: He have gone from 36 licensed facilities nine months ago to 1999 as of May 1. A little over 50% of these are new facilities -- homes and centers -- that did not previously exist. There are 54 public centers right now, there were seven public centers when we started nine months ago.

DR. ANDERSON: Are these figures for all of Vermont?

MR. HOLLAND: Yes. During the FAP experiment everything has been put under one unit in the state OEO office -- the licensing, the day care, the Title IV, and the FAP day care.

MR. PITTAWAY: My whole quantitative background just cries out at this moment. When you are talking about an almost zero base it is foolish to talk about percentages. You are much better off talking about absolute terms. A 400% increase on a zero basis is not very much.

MS. ROWE: The Massachusetts planning team has been worried about a federal model or a state model being visited on communities of different kinds. For that reason I was particularly interested about how to get communities to define what they want for themselves. Do you have any organized plan for fostering diversity or protecting diversity or seeing that communities get just what they want rather than some standard model?

MR. HOLLAND: Yes, we have been utilizing the 4-C plan. All of our contracts are not with the operators; they are with 4-C's who write their own program and develop their own program. The parents have to be involved in it and the money goes to the group and they subcontract. Instead of our contracting all over the state we have nine regional groups. we contract with them after their plan has been reviewed and they subcontract, so they are operating their own. We are not operating at the state level. We don't want to become operators.

MS. ROWE: What kind of diversity are you finding?

MR. HOLLAND: In program?

MS. ROWE: Yes.

MR. HOLLAND: I can't speak about program too much.

MR. BYRD: Does the Vermont plan, since you are using the 4-C concept, allow you to subcontract to proprietary centers? Then people who are in businesses like Kinder Care can begin to take advantage of those contracts and provide the kind of quality care using subcontractors.

MR. PITTAWAY: It is illegal to put federal money into any day care situation like that.

MR. OGILVIE: It happens all the time.

MR. GRASSGREEN: If profit-making organizations can actually contract with government welfare agencies to provide space, there is one big problem. We can contract with a welfare agency or any type of government-funded agency where dollars are provided, but they say, "Well, we want you to locate the facility in an area when that facility will only be able to be used by welfare recipients." There is nothing wrong with that, but the most the state will give us is a two-year contract. So we spend $125,000 on a building and we provide the services. You can't amortize the building over two years. If there were some lease guarantee or something of this nature with the grantors' financial resources used to provide the new facility, the problem would be alleviated.

COMPUTER-BASED MODEL TO ANALYZE COSTS OF DAY CARE

Donald G. Ogilvie, INNER CITY FUND

I have, under contract with the Department of Labor, developed and written a computer-based model to analyze the costs of day care. As part of that study, I developed a mathematical framework to analyze the potential economic benefits of employer-sponsored day care. I define employer-sponsored day care by who pays for it, rather than by where it is located. Industrial day care should be day care that is provided, arranged, or paid for by a corporation for its employees. The results of these studies have been written up and are currently at the printer.

The cost model was built primarily in response to federal policymakers who repeatedly asked about day care costs. Estimates of the true cost of day care varied from $500 to $5000 per child per year. There was no consensus between any two individuals I talked to about what it really costs. I did not find that at all surprising, and I tried to build a model that would show why. As you have seen from the Abt study, the estimates in day care costs, depending on size, location, and quality, vary dramatically.

One of the basic problems is that there is little agreement about either what we want to get out of day care or what the characteristics of a quality child care program are. To further complicate the situation, there is only limited (and frequently contradictory) information about the value of additional resources.

I developed an on-line computer program to evaluate the day care cost factors and estimate the sensitivity to various assumptions about quality, size, location, efficiency of operation, and economies of scale.

I had four basic objectives in doing this (it is a very limited model and does not try to do everything, so please do not expect it to answer all your questions):

1. I tried to make it define all the inputs in terms of goods and services, dollars and people, for any given day care program;
2. I tried to develop a range of cost factors that anybody could use to evaluate this own quality program;
3. I tried to analyze the sensitivity of outputs to small changes in the inputs; and
4. I hoped to reduce some of the uncertainty among day care planners, both at the federal level as well as the proprietary guy who is trying to figure out what his program should look like.

I reached two basic conclusions, neither of which is going to surprise any of you, but both are important as we try to develop day care programs. First, and most important, there is no "one" cost of day care. For the most part you get what you pay for. Different people define different programs differently. That is the single largest factor in explaining why the cost of day care ranges from $500 to $5000 per child. Second, the cost of day care is very sensitive to changes in a small number of input factors. In addition, costs are relatively insensitive to a number of factors traditionally considered very important for day care. By way of illustration, based on the model and some inputs I have arbitrarily defined, a reduction in the pupil-teacher ratio from seven to one to four to one can increase the cost per child by 30 - 40%. It is a relatively small reduction in staff ratios, but gives you a large increase in the costs. A heavy reliance on certified teachers (as opposed to less qualified, perhaps less well-educated paraprofessionals) can easily double the cost per child per year.

I found that inefficient use of capacity was one of the most important factors in determining costs. This is not frequently brought up, but the enrollment rate and the ability of the center to get it close to 100% is extremely important. For example, you can reduce the annual cost per child about 10 - 15% by increasing enrollment rates from 80% - 95%.

Costs appear relatively insensitive to several factors which frequently are considered essential to quality child care. For example, a 50% increase in the cost of food may not cause more that a 3% - 4% increase in the total cost per child. The cost of program books, materials, and supplies (all the visible things that people tend to associate with quality) is generally an insignificant percentage of the total.

Finally, the annual cost per child is relatively unaffected by the cost per square foot of construction. (That does not mean the cost of construction is an insignificant part of total cost.) For example, under some assumptions, a 50% increase in the construction cost per square foot would increase the annual cost per child by less than 3%.

I would like to put in several words of caution at this point. Like all mathematical models, this one makes some simplifying assumptions. The weaknesses in the model, as I see them, are the following.

It is a static annual program. It cannot accommodate a dynamic growth situation. It cannot accommodate enrollment changes during any one year. It cannot handle changes in expenses, for example. It can, however, approximate growth if you run it for more than one year at a time. So if you manipulate the model properly you can approximate a dynamic situation.

A second and probably more important weakness is that the model works in dollars and therefore cannot evaluate quality. It cannot tell the difference between a good and a mediocre teacher, both of whom are paid $3000. It cannot evaluate two types of education equipment, one produced by Kinder Kare, which is very good, and another produced by another company which is poor.

Third, this model can only program operations within certain ranges. It is a linear relationship model and is therefore only applicable over certain ranges of assumptions. For example, it can alter the child-staff ratio -- it does that quite well -- but it cannot change the number of hours that you operate the center. It can vary the size of the center or the number of children per class, but it cannot take into account a half-day program or a summer program or after-school program.

Last, in its present form it cannot take into account the cost of leased facilities. That is a big weakness of the model because I realize that most of the facilities are now leased. On the other hand, from the point of view of someone who is going into the day care market either as a proprietor or a federal agency assisting in the development of facilities, I think it is more realistic to look at new or renovated facilities as opposed to leased ones.

Let me give you a rough idea of what you can do with the model. You can look at economies of large-scale operations. You can evaluate the impact of alternative staffing patterns of the annual cost per child. You can look at the cost of improving quality by increasing the experience or education level required for the staff. You can assess the trade-off between higher tuition and lower enrollment rates. You can analyze the effect on total costs and a set of changes in the size and the quality of administrative and classroom facilities.

You can evaluate the optimum center capacity for a given market area and program quality level. Finally, you can analyze the sensitivity of the cost per child to changes in such factors as child-staff ratios, salaries, enrollment rates, fixed costs, and construction indices.

The model is intended to focus the debate about what day care costs on desired outcomes. It is an analytical tool. It is not going to solve any of the debates we have had this morning about the nature of a quality program.

The model contains four basic logical modules. The first are what I call capital investment factors. They include the number of square feet per child, the initial cost to equip each center with books and materials.

The second basic module is what I call fixed operating costs. Over certain ranges -- and it is important to remember that -- there are some costs that are fixed in a day care center. There are a series of inputs that go into the model that require you to specify the fixed costs.

Third, there are a series of variables that I call classroom variables which primarily (though not exclusively) vary with the number of classrooms or units that you have.

Finally, there are some variables that I call child variables. They are costs that vary with the number of actual children in the center as opposed to the number of kids enrolled. Those variables would include such costs as food consumed, materials and supplies, and insurance rates.

The model produces a set of 14 matrices. They provide analyses of annual sales, profit before and after taxes, the capital investment required, the equity investment, the debt required, and the annual cost per child in the center.

Let me explain one example. Assume that the center had five classrooms and each classroom had a capacity of 20 children. The center contains 3850 square feet of space, 35 per child plus 10% for administrative and other space, such as storage. It cost $16 a square foot to construct. There were on the average 90 children enrolled in this center (although it had a capacity of 100 children), and the attendance rate was 90%. Each classroom was equipped with $1000 of equipment and supplies (just the basic bare-bones classroom). An additional $800 was consumed per classroom per year. Each child got one meal and two snacks at 65 cents a day ($165 a year), $50 worth of medical services, $10 for special clothing, and $100 for miscellaneous services. Three-quarters of the fixed investment was financed at an annual rate of 9%.

The model requires you to define two variables for each run. For this case, I took annual tuition per student and the teacher-cost per class. We have been debating all morning child-staff ratios and levels of professional qualifications; both define the teacher-cost per class. You can have a classroom with 20 children, for example, and you could decide that you were going to spend $24,000 as the teacher-cost of that classroom. You could buy two PhD's from Harvard for $12,000 each and have a pupil-teacher ratio of ten to one; or you could buy eight $3000 per year Head Start mothers and have a pupil-teacher ratio of two and a half to one.

The model requires the planner to define the relationship between the number of people in the class and the experience level as reflected by their salaries.

In our example, the model varied the teacher-cost per class from $8000 to $24,000 and tuition per student from $800 to $2000 per year. It automatically divides whatever range you give it into five pieces and calculates as a 5 x 5 matrix. For example, it takes the teacher cost per class at $8000, $12,000, $16,000, $20,000 and $24,000, and it varies tuition from $800 to $1000 to $1400 to $1700 to $2000. Then it calculates 14 matrices of data. A short run gives you only five matrices.

For our example, annual revenues would range from $72,000 to $180,000. Total cost varied significantly as a function of the staff cost per classroom.

Profit after taxes for this particular center varied from a loss of $112,000 -- that is with low tuition and a very high staff cost per class -- to a profit of $46,000 with the high tuition and relatively few teachers.

Total assets required for the center varied from $116,000 to $123,000 -- the difference was primarily a result of the additional working capital you need to put into this center to support additional teachers. The annual cost per child varied from $1000 to $2000 as a result of increases in expenditures for a larger or more qualified staff.

* * *

MR. RUOPP: Was the administrative cost a function also related to the classroom?

MR. OGILVIE: No, administrative costs were defined as fixed costs. It's relatively easy to change the equation to make them a function of the number of kids.

MR. RUOPP: What decision do you use for that?

MR. OGILVIE: I defined $15,000 worth of fixed salaries, roughly equal to one person at $10,000 and clerical or support help for the additional $5000.

MR. RUOPP: No supplemental services?

MR. OGILVIE: There were $100 of social services per child, $50 of medical, and $10 worth of other expenses per child.

MR. PITTAWAY: Is your model published and documented and so forth?

MR. OGILVIE: It's being published now. There are several appendices to the model, including some data that Westinghouse and Abt gathered on the range of services and costs.

The model is inexpensive to run, and I would be happy to make a limited number of runs for anybody who would like to have them. If you are interested, send me the inputs and I will be happy to run them and send you back the outputs.

MR. RUOPP: What language is it in?

MR. OGILVIE: It's in Fortran IV.

MR. WARNER: Will it be available to the government?

MR. OGILVIE: The model is published in a book and as far as I am concerned, anybody can put it on his own computer. I have a listing of the program. You may run it any time you want to.

MR. SONENSTEIN: Are the programs in the public domain? Were they federally financed or are the programs the property of a private organization?

MR. OGILVIE: I built the model for the federal government, and they are, therefore, in the public domain.

MR. PITTAWAY: I hate to ask this question, but having been over this kind of ground many times before, to my great sorrow, are you sure that the listing published is a listing that runs?

MR. OGILVIE: Yes. But you may have differences in your computer system.

MR. RUOPP: What were your profit and capital amortization assumptions?

MR. OGILVIE: Profit is a fallout figure at the end of the costs. The model is constructed on an accrual accounting basis, and thus does not reflect capital amortization.

MR. TALCOTT: You said that there were four models for the inputs. Are all the inputs in dollar terms or are there physical measures which are inputs? What do those inputs look like?

MR. OGILVIE: I will read you a quick list of them: the ratio of administrative space required per classroom space; number of square feet of classroom space per child; number of acres of land required for that center; capital investment cost to equip one classroom;

miscellaneous start-up costs such as planning, taxes, landscaping fees, architecture, expenditures like that; fixed salaries for directors, secretarial people, and psychologists; cost of equipment consumed per class per year; cost of maintenance per class; teacher training costs, if you want to have any; other expenses that are a function of the number of classrooms; medical cost per child; clothing cost per child; the tax rate for profits under $25,000 and tax rates for profits above $25,000; depreciation rate; number of students per classroom; interest rate on borrowed funds; working capital as a percentage of total cost; fixed cost to purchase an existing facility, if you want to renovate; construction cost per square foot; staff cost per classroom; average tuition per child; average attendance rate; number of classrooms; average enrollment rate; and the ratio of debt to total assets.

DAY CARE START-UP COSTS

Richard Grassgreen, KINDER CARE NURSERY SCHOOLS, INC.

What my intention will be in this presentation is to relate our actual costs to the initial investment in creating the physical facility of the center.

We have mainly discussed cost analysis in relation to the costs of operating the center, but no center can begin operating until you bear the cost of start-up by either renovating or acquiring land and building a new facility.

We have developed two prototypes for our centers. Basically, the designs are the same. The difference is only in the physical size as related to the number of children the center would be licensed for. We have a 70-unit child care center and 100-unit center. Which one we decide to build is based on the cost of the land and building in relation to the economics of a particular geographical area. It has been our experience, from operating 17 centers, that because of the cost of operating a center, it is more economically feasible to build the larger facility.

Our 70-unit facility is approximately 3600 square feet and our 100-unit child care facility is 4800 square feet. The square footage requirements were settled on after we did a study in almost every state in the United States about the requirements for indoor square footage. The norm was approximately 35 square feet of indoor space per child. To have a 100-unit child care center, you need a basic 3500 square feet, plus footage for bathroom, storage, kitchen, and office facilities.

The next step, assuming we decided on the 100-unit child care center, is to acquire the land. What size land do we need to accommodate a 100-unit child care center? Again, a study was required on this point. We find that requirements range from "adequate," as one state defines the outdoor space or play area, to as much as 200 square feet, which is specified in Wyoming. (I gather Wyoming has lots of land and that is why they have more square footage requirements.)

We run into very unusual problems about square footage. Even local counties vary from the state requirements. Raleigh, North Carolina, requires 100 square feet of growing area. I asked the planning commission why we need 300 square feet when you only have to fence 100 square feet. He said, "I don't know. I guess just to pay taxes one." The average we arrived at was 100 square feet per child of outdoor space.

Assuming we need 4800 square feet for a 100-unit day care center and we need approximately 10,000 square feet of outdoor play area, our total need would then be 15,000 square feet. Then you add another 5000 square feet for parking and ingress and egress, and we are talking about a lot approximately 100 by 200 feet. The cost of this varies depending on the site.

We are fortunate that a lot of the land requirements for day care centers are for outside play area. Therefore, we can use irregularly shaped property. We can use a parcel that may be only 60 feet wide, but deep, where other facilities can't. We can save on cost that way. Of course, what we would like to have is a regularly shaped piece of property so we can plan our equipment to to be located on the left, right, or rear of the facility. This is quite important.

To settle on a particular site, we go through various steps. First, we determine the cost of the land. Then we do a feasibility study of the intended use. We study zoning requirements and permits needed, and determine the construction costs. The cost of the building, the selection of the contractor, and, of course, timing in opening are important in relationship to realizing income quickly.

Before discussing this in more detail, let me first give you some figures. In Atlanta, Georgia, where we have been operating centers, our costs have ranged anywhere from approximately $22,000 to $30,000 for approximately a half acre of land, about 100 by 200 feet. I would say this would be the norm in a city of that size.

Once we find the location, we do a feasibility study and also determine whether the property is properly zoned. These are interrelated: if you have a good site that can't be used because of improper zoning , it is no good, and if you have a good site with zoning that allows for a day care center, but is not a feasible location, this also is not good.

In a feasibility study, we do what we call a market analysis. We usually have this done by a local realtor or the developer who is building on the site. There is no guarantee that the analysis is going to predict the success of the center, but some of the factors we have found that relate to a successful center are whether or not it is close to apartment complexes. If it is, are those apartment complexes family or single units? How many are family and how many are single? Where is the site in relation

114

to the main flow of traffic?

I think Dr. Rowe said we want to have it near the home, but being realistic, we can't have all our centers exactly near all potential users. There are going to be people driving their cars to work, so we have to be close to a main thoroughfare, although we don't want to be on the main thoroughfare itself. We want to be able to go in and out of the center easily. We look for a stoplight or traffic sign at our intersection.

We also look at the business activity in the area. We basically operate our centers from 7:00 in the morning until 6:00 in the evening, five days a week. This is our basic operation for full day care services. But we realize that we have an investment in the physical facility of approximately $120,000. That facility stays there 24 hours a day and if we are only utilizing it five days a week, ten hours a day, we are not getting the full use out of it. So, by locating near shopping centers, we may go into other areas of income. We have a center located in Mobile, Alabama, which is fairly close to a large regional shopping center. We have just started opening during the evening to provide a babysitting service for the shoppers. One of the problems there is that most states require a health certificate to take care of a child, so we have, of course, in advertising for the services, advised the parents they should come by and get a copy of our health certificate, get it filled out, and we keep it on file. Of course, it has to be updated periodically. Therefore, we try to locate our centers in areas near shopping centers or apartment complexes and where possible additional income can be realized.

We also determine how many grade schools there are nearby and the enrollment. As we all know, the mother who has a three-year old also may have an eight-year old. Therefore, we provide in our schools after-school service. This is important for the working mother, and it brings in additional revenue.

It is also imperative to know who our competition is. What do they charge? What type of school do they have? Is it a remodeled center? Are they open 24 hours a day? Do they provide transportation? This gives us information about what is being provided in the area at the present time and for what cost.

We invariably charge approximately $5 to $10 more than the average day care cost. Most of the centers in the areas we are penetrating, even Atlanta, are charging $12 to $16 per week per child for full day care service. This is proprietary. I don't know what it is in relationship to welfare agencies.

If we are locating near apartment complexes, we send out a questionnaire to the apartment dwellers. We ask questions such as, "Do you have preschool children?" "Are they presently in nursery school?" "Do your children attend half day, full day?" "Would you be willing to pay $10 to $12 for half-day service, or $12 to $30 for full-day service?"

With all this information gathered we still are guessing, but now it is an educated guess. You never know until you open those doors and the child enrolls how the center will do. After opening 17 centers, making errors in some and doing away with the errors in others, we feel we have a good method of locational analysis.

The biggest problem in site location that we have is zoning. When the zoning laws were written, they were written by businessmen. These businessmen were more interested in commercial and industrial use. Nobody cared about day care centers because they were not operated by anybody of any significance in the business community.

We have never found a site, in maybe 30 or 40 that we looked at, where we could actually go in and build the center. We have always had to get rezoning or a special-use permit. I have even had to buy a commercial site and rezone it to residential use and apply for a use permit. The requirements are sometimes ridiculous.

We have problems with health departments and fire regulations. In Atlanta, we have eight schools. In each school, the same health department and fire department have made different specific requirements, different for each school. It can become costly.

Therefore, before one gets started, the best thing to do is to take your plans and submit them to the regulatory agencies -- the fire department, health department, traffic department, etc. -- and get the plans approved. Otherwise, it can become very costly if you have to make changes after you enter into a contract with the builder.

As I said, our facility is either 3600 square feet or approximately 4800 square depending on whether it is a 70-unit child care center, or a 100-unit child care center. Our costs for the 70-unit center have ranged anywhere from $45,000 to $55,000, and in the 100-unit center, anywhere from $60,000 to $80,000, based upon geographical location. We find the best way to get the costs down is to negotiate with a local contractor.

Our buildings are basically brick and mortar. People in the room have asked me why don't we use modular-type construction. The problem is that the local contractor doesn't know how to build such structures. He gets scared. As soon as he sees it in the plan, the prices go way up. Therefore, if you try to keep your construction simple and deal with a local contractor and negotiate your price, you will come out better.

Timing is very important. We have found that opening a center in late July or the first week in August is important to get us to a break-even point. It takes time. We don't open a center and fill it. We have never opened a center that has been filled within two weeks. Of the 17 centers, our oldest centers are approximately one-and-a-half years old. They are filled. Usually we open up a center with anywhere from five to ten students and we add five, six, or ten per week.

How do you go about financing this? We have done it two ways. One is through the local savings and loan associations, which are interested in community business such as day care centers. Many times they will work with you to the best of their ability to give you a mortgage on the cost of your physical facilities. The method that we have found in building and financing facilities is to have developers lease the facility to us. We showed our Kinder Care facility in the Apartment Construction Exposition in New Orleans, which was April 26 through 28, and we have interested many, many developers -- more than we ever thought -- of large apartment complexes and communities, such as Levittown and Columbia. This, I believe, is going to be a tremendous boom to the proprietary segment of the industry -- having developers build the facility and lease it to operators of day care centers.

We have also cut our costs in this way. You can discuss with these developers a sliding scale rent to reduce your cost. If you request at the opening stage a minimal rental, and agree that as soon as there is an increase in the enrollment the rental will be increased, you find developers are apt to agree.

Sometimes because of the density factor in relationship to the amount of land needed for apartment development, developers have vacant land surrounding a complex, not usable for apartments but suitable for a day care center. They will sometimes permit the use of the land for a center without cost because of the benefit to them. In those instances, all we paid for was actually the cost of the physical facilities.

I think Don mentioned the interest cost is 9%. Actually 9% simple interest amortized is really a little more than 12% constant. So, if you are building for $100,000, your rental would be $12,500 per year on a constant basis, to return the money borrowed on 9% simple interest.

* * *

MR. PROSSER: About how long are you finding it takes to get up to capacity?

MR. GRASSGREEN: Let me give you the centers that are at capacity. We opened a center in February 1970; we were at capacity in that center in September 1970. We opened a center in July 1969 we were at capacity, I think, in April 1970. It took us time. We have opened up centers in Atlanta in August 1970 and we are at capacity now. It usually takes about six months, but it depends on when you open them. We opened one center in April. We will not be at capacity and will probably lose money in that center until September. If you open a center in March, you will probably lose money until September. If you open a center in August or July, you may start making a profit or realizing enough income to bear your costs in September. So it is very important when you open.

MR. RUOPP: What are you doing about pre-enrollment marketing? You could almost give away care to half the people.

MR. GRASSGREEN: We have tried different things. One of our business associates said, "Why don't you give free service for two weeks?" We advertised in Columbus, Georgia, where we have two centers, that the first two weeks would be free. It didn't work at all. I just don't believe you can sell -- and it is selling, really -- day care in the same way you would sell a car. I believe it is a matter of an educational process, of the director educating the parents in the area to pay for the facility.

What you can do is actually advise the people, so to speak, that we are coming. We have brochures that we put out. This is the best way that we have found to actually get people to come into the center and see it.

We find that once we get the child in the center and enrolled, we rarely lose him except, of course, if the parent is not working, or if there is a change in residence.

MS. BELL: Has Kinder Care stayed in four Southern states for any particular reason? Is it because of day care availability or licensing or the economy or for other social reasons?

MR. GRASSGREEN: Actually, it is good business to stay at home when you are developing a new concept and a new business. The worst thing in the world is to jump, because then you can't control your costs and you can't watch what you are doing. It is best, in our opinion, to grow from a shell out. That is why we started in Montgomery, Alabama. So, therefore, it would be natural to go to Atlanta, and so on.

Economically, if we just used state requirements for staff ratios, the states that have the easiest requirements are in the East. I think New Jersey, Pennsylvania, Maryland, and Virginia are the most lax in this regard. In relationship to meeting state requirements, the staff to child ratio is a very important cost. But that wasn't our major concern, really.

DR. ANDERSON: How long does it take you from the time you decide to build in a place to the time you have an operating center?

MR. GRASSGREEN: This varies. I would say the minimum time from the day I say, "I want to come to Washington," until the day I open, would be six months. It could be a year.

MR. PROSSER: What about training the teachers?

MR. GRASSGREEN: We have a training program given by our director of education for Kinder Care. We bring our teachers to Montgomery for approximately four weeks. If we have centers located in the area, and we have a well-qualified director who has been trained, the teachers may train in the Atlanta area. Usually the directors that we hire have two basic ingredients: a degree and experience. In and of itself, a degree does not qualify one to be head of a school. Experience is important in our opinion to operating a good quality day care center.

When we hire a director, she is usually qualified. She hires everybody else. She runs that center. We may monitor salaries and we may monitor the people, but we don't hire the other staff.

MS. LAWALL: Earlier you said that when you had a low pupil-teacher ratio, there was a problem of having the teachers falling all over each other. How have you worked out your staffing and what do you find your problems are? What scheme do you use?

MR GRASSGREEN: We open a center with the director. Her number two person is the head teacher, who actually is a kindergarten teacher and probably has a degree. And there is a cook. So we have no children and we start staffing. How we increase our staff depends upon the mix of the children. If we start getting a lot of two-and-a-half to three-year olds, our staff requirements go up. This is watched very carefully. We get an analysis every four weeks in our office from every school, stating the name of every teacher, what they do, the hours they are there, how many children they take care of in the morning and how many children they take care of in the afternoon.

In this way we can control cost. If the teacher has too many children in relationship to the requirements, we have to control that. If she has too few and we really don't need two full-time teachers, but we need a full-time teacher and a half-day teacher, this is very important to know.

Many people have said it may be quite difficult to get half-day people and let people go. We have done it and it has not been, so far, that difficult to get a staff.

MR. BYRD: You have your own facility design, is that correct?

MR. GRASSGREEN: Yes.

MR. BYRD: So wherever you go, you use that particular facility design?

MR. GRASSGREEN: All the 17 centers are designed the same inside. In the apartment complex where we built a center, the developer did not like our front and we had to change it. But basically it is one design and we use the plans over and over again. It permits us to make sure we know costs.

MR. RUOPP: Is it a multi-purpose building for financing purposes? That is, is it convertible?

MR. GRASSGREEN: In my opinion, I can show any bank or financial institution that it is multi-purpose, but in discussing it with many bankers, they don't think so. They see our front, which is a stucco-front facade designed with children in mind, and they say, "This is a single-purpose building." You can bang your heads against the wall all you want and it is not going to be that easy.

MR. PROSSER: Do you get any in-kind or volunteer help?

MR. GRASSGREEN: No. You have met the first organization that doesn't get any in-kind or volunteer help. You said you had never met one that didn't. I don't know of anybody that works for us for free.

MISS MILLER: You just told us about the apartment developer giving you the land. You got it for free?

MR. GRASSGREEN: We paid for the facility.

MR. SONENSTEIN: I would like to explore for a minute the problems of your selling services to a governmental agency. We just developed a system in which the state of Indiana purchases day care from proprietary centers. They establish requirements about the level of profitability, and depreciation guidelines, and this sort of thing. Would you be willing to enter into that sort of relationship?

MR. GRASSGREEN: We have tried to. Let me tell you some of the problems we have run into. In Alabama there are probably a tremendous number of people on welfare and a tremendous need for day care in the poverty areas. So I went to the state office and said, "We have facilities that we could possibly use if you would pay our tuition for enrollment."

Their response to me was this, "Well, your center's are not in the area we need them, and we feel that busing is not proper."

I said, "Why?"

They replied "These people really are not cognizant of time. You may send out a bus to pick up the child and they don't know it is 9:00 and they don't think about it. Then you go to take that child home and nobody is there and what do you do with the child?"

So they told us they felt unless the facility was located within walking distance of the area where it was needed, there would be a problem in busing. At that time I wasn't aware of any surveys or any retort to this response and I was just left sitting there.

We submitted to Birmingham, Alabama, a plan to provide day care services. The costs were higher than we charged, mainly because it included medical and dental services which we don't provide in our facilities because we are dealing with middle-income people who don't really need free medical and dental care. Somebody on the board was very annoyed because we were profit-making. We didn't really get too far because of that.

Another problem was they couldn't find construction dollars for physical facilities. As I said earlier, we had the problem of two-year funding. Ten facilities cost us $1,500,000. We can get that money and build the facility and operate it in accordance with the standards and quality they set down. At the end of two years if we lose our funding, we are sitting with a $1,500,000 worth of facilities and it is probably in an area where we are not going to get middle-income families to come in and we are out all that money. You can't ask them to make us that much money in two years.

MS. BELL: You said that the middle-class kid doesn't need medical and dental care. Probably everybody at the table has his own opinion on this and clearly I have my own.

Suppose you have these 100 middle-class kids and suppose three of them are mine. Suppose, because I work from 9:00 to 5:00 every day and Saturday mornings I don't get my kid to the doctor and to the dentist and there are some rather serious problems. The kid's teeth are rotting out and they have lumps and bumps and scratches and all kinds of things. Are your teachers geared to arrange for referrals or do you have days where there are teachers that are free to take youngsters to doctors and dentists and meet the kinds of medical and social commitments that these children may need during the week?

MR. GRASSGREEN: We have not at this time provided for this. Why? Because right now the need that you say exists does not appear to us to exist. We may find as we become more experienced that it does.

Now let me explain another reason why we have not provided such care. In developing any business, good business judgment says if you have a product, first develop that product to the best of your ability. Then from there develop new products. The worst think in the world is to start jumping all over and start providing services of every different kind, not knowing what your costs are.

When you realize what your costs are in operating the basic day care service, then go into other programs, which we will. Right now we can't provide transportation. We are discussing it for some of our centers. We are eventaully going to provide tutorial and remedial reading services.

MS. LAWALL: Do you have any objective other than just caring for the child? Do you have a developmental or educational program? Do you do any evaluation?

MR. GRASSGREEN: I am not an educator, although I spent eight years in college. We have an educational program. It is based on 52 weekly themes of life cycles. It is called a Kinder Kit. It is a booklet that the child receives which has different types of educational materials in it, numbers, shapes, etc. It is based on themes such as school is fun, weather, transportation, safety, our community. Then, of course, there are the holidays -- Christmas, Thanksgiving -- good health, wild animals, space.

This Kinder Kit is designed for children ages three to five. Certain materials in the kit are attuned more to the older child, but they are put in there so that the three-year old child, if advanced, can do what the older children are doing.

As I said before, we send a letter home telling what the child has learned, such as shapes. We suggest that parents talk to the child about triangles and circles and so on.

We have an educational process that we consider is fine. We give the Metropolitan Reading Test and the Stanford Binet Test to all of our children. I believe the tests are given twice to the four- and five-year olds.

MR. McCLELLAN: Would you like to comment on why Kinder Care chooses to build new buildings?

MR. GRASSGREEN: We have found that it is easier than finding a facility and renovating it. Also we feel that the physical facility is important.

Our facility is designed with a center core which houses the bathroom and storage room. We don't have distinct classrooms, but we have a separate room for the younger children. So the facility, we feel, is important to our overall program. I don't think you can get that so easily with a renovated facility.

MR. McCLELLAN: Just to tell it like it is, is it possible that that is where the profit is at, in the facility and equipment and supplied? That may be where you make it in franchising or chain development -- tax shelters, amortizations, and so on. I didn't say it was bad, all I am saying is that that is a very important thing to focus on. If you put the money into buildings it means it is going to shape investment patterns in particular ways. It may or may not lead to services.

MR. GRASSGREEN: Let me tell you where your philosophy is wrong about tax shelters, and depreciation, and so forth.

Kinder Care is a wholly-owned subsidiary of a public corporation. As you know, the sophisticated public looks at one thing: earnings. They are not sophisticated enough to analyze a statement of a company not earning money because of the fact it is all non-cash flow items, such as depreciation. So earnings to us are vital.

All our buildings are depreciated on a 25-year straight line life. We don't take a rapid declining balance of 150%.

MR. OGILVIE: There is not a big shelter on a 25-year life of a $100,000 investment.

MR. McCLELLAN: I still think that is where it is at. Franchisers make money on equipment and supplies. It is very much like the gas station. If you work hard and put in a lot of hours as a lessee at a gas station you make some money, but you have to put in an awful lot of hours to make that money.

Just from my observations I would guess that to be a manager or a lessee of a franchise operation for day care is where you would make your money -- in the investment portion and not in the actual operation.

MR. GRASSGREEN: Let me just say one thing about the investment part. When we first started business we had considered the possibility of franchising day care. We, in fact, sold some franchises and we refunded these people their money because we changed our minds. It may be unusual for a franchise business to refund money, but we did.

We got out of franchising for two reasons: quality control and the financial inability of the franchisee to provide financing to build the facility. We had $3,750,000 worth of mortgage money that we could have used for the franchisee, but it was too expensive. If the money was being used for building the building and leasing to the individual, there is no profit in that. I can show you figures on that. Because of the change in the tax law, the profit in owning real estate is only in apartments.

MR. OGILVIE: Not even there any more.

MR. GRASSGREEN: I might add that there is one additional advantage to building a new building, and that is people like new buildings more than old renovated cellars. I think you would agree, Dick, that there is a distinct marketing advantage to have a spic-and-span building that is designed for kids, that has all the right colors, and the right ceilings, and the right lights.

I think, as Burt Sonestein will tell you, it is very expensive to renovate buildings. It is probably more expensive to do that than to build a new one.

MR. McCLELLAN: Depending on where you are located.

MR. PITTAWAY: I would underscore this building problem. Frequently when you are talking about trying to get services to low-income areas, it is very difficult to find space that you can get licensed at reasonable cost. This is true for the country, as a whole, although Chicago may have some situation that makes it different. We are talking about center type care. If you are talking about family group or family home type care, then another situation comes out.

MS. BELL: Washington is running out of church basements and storefronts.

MR. SONENSTEIN: Mary Rowe, this morning, talked about the importance of stability of income or stability of enrollment in a day care center and you mentioned that problem. How do you contract with the parent? Do you basically establish an annual contract or do you do it on a week-to-week basis?

MR. GRASSGREEN: It is on a week-to-week basis. They pay on our basic schedule from Monday to Friday. They pay Monday in advance.

We do have pre-enrollment. Some of them pay monthly. But we are not dealing with families with $40,000 combined income. We would be dealing more with the lower-middle income to middle income people. We are not even dealing that much with upper-middle income where the combined salaries are $12,000 to maybe $17,000.

MR. RUOPP: Obviously you are concerned about fuller utilization. Have you talked about going to 24 hours, seven days a week, where it might be appropriate? Certainly from families with $40,000 and up combined income there is a lot of money to be made by providing in an apartment complex a Kinder Care operation that is available for those parents on a full day and night basis.

MR. GRASSGREEN: We have a center in Atlanta in the process of being built in what is called Charlestown Apartments. It is in the apartment complex, but is not exclusively for the apartment tenants. The complex has about 4000 units. These people are in the $15,000 income range.

MR. RUOPP: I am talking about profit margins to be made at this point. The market is not saturated for high cost tuition -- $5000 and up. I am just suggesting when Kinder Care is in the business...

MR. GRASSGREEN: We have not gotten involved that much. In the South, as it stands right now, domestic help is not nearly as costly or hard to find as elsewhere. The more affluent people are going to have sleep-in or full-time maids, whereas a $40,000 person in Washington may not be able to afford it.

MR. RUOPP: Could you tell us, Dick, about the profit picture? Is one of your targets return on investment? What kind of profit do you hope to take from a fully operating center and what ancilliary services and goods are you supplying that help increase that profit?

MR. GRASSGREEN: We look for each center to return to us anywhere from $15,000 to $25,000 per year. We work on 13, four-week accounting periods. We have levels of enrollment.

We had a profit in one of our 70-unit centers of approximately $ 2000 for a four-week period. If that four-week period falls into a Christmas week , that is different. The profit will be less, as in the summer.

So, $15,000 to $25,000 is what we hope to make per center. Our revenues come basically from tuition, registration, and dancing. We don't sell anything except services. We have the Kinder Kit which is supplied free.

MR. BYRD: On a 100-unit child care center, your gross revenues would be what?

MR. GRASSGREEN: On a 100-unit child care center, completely full to capacity 12 months a year, assuming a cost of $20 a week, our gross would be about $104,000.

Now, that is for 100 children. But in a 100-child day care center, you could actually enroll and collect fees from approximately 115 and still never be over the licensed requirement.

MR. BYRD: You are going to make $25,000 after operating expenses on a gross of $104,000.

MR. GRASSGREEN: Right, easily, on that basis.

MR. PROSSER: Does all this talk about federal government getting into the act scare you? Are you worried about us driving you out of business?

MR. GRASSGREEN: No, I don't think so. I believe what will happen is that you will come to us and ask us to help you get out of the problem you are going to put yourself into.

DR. ANDERSON: What do you say that problem is that the government will put itself into?

MR. GRASSGREEN: They are going to start spending money to provide all these different services that they are not going to know how to implement, how to control, and they will pay exorbitant salaries, and they will annoy the public until the public will not provide funds for continuing the program.

That is what is going to happen. Most of your federally-funded programs are exorbitantly expensive. Like the gentlemen over there said, what you do is take the child out of the rat-infested place and you put him into the roach-infested place, and you provide lots of warm bodies in relation to the numbers of students and assume that you are going to come out with a nice, fresh, child at the end of the day.

MR. BYRD: I can see that happening right now, where various states are beginning to utilize Title IV funds, and through 4-C organizations, and so forth. They have promised the communities that they are going to provide day care for a certain number of children. The communities have yet to see that and they are becoming frustrated.

Indianapolis is a classic example of what is actually happening

Here is the capital city which had the first 4-C organization in the state and it has yet to provide, out of all the funds they have gotten, one day care program in over the year and a half they have been in operation. There is not one slot. That is why you are going to need private industry to come in to design, implement, and operate the program.

MR. GRASSGREEN: The mistake that people make and that I have seen wherever I discussed day care with federally-oriented individuals or educators not federally-oriented is that they say there is something wrong with us because we make a profit. I hate to wave a flag, but private enterprise has done pretty well in this country. I believe we have a tremendous amount to offer each other, but if we sit down and you look at me and say, "Well, you're making money, and therefore you are trying to cut quality," I think this is a bad assumption to make.

MR. MANDEL: If the federal government is going to encourage exorbitant salaries, will you still be able to attract the kind of staff you must have at the salaries you are paying?

MR. GRASSGREEN: The federal government can't take care of every child. There is going to be a snobbish element in the low-middle income to middle income that will never go to federally funded day care centers.

MR. MANDEL: I am not talking about people.

MR. GRASSGREEN: Teachers will have the same thought. Why is it we can hire teachers at a lower level than they can in the school systems? In the areas I am familiar with there are teachers I know who could work in the school system. Why don't they? Because they want to deal with young children. Most of the people we hire have love for the child. They are not working, like 90%

of us, primarily for the financial return. Most of the teachers we hire, in my opinion, are working because they love what they are doing.

Secondly, it's income. I am not going to say they will do it for nothing, don't get me wrong. What I am saying to you is that we pay degree teachers $85 a week. I am not saying that they are the finest degrees, but these people want to work with children.

I have one teacher that I begged to become a director. She said, "I won't give up my class for all the money in the world." She is getting $85 a week. I offered her the opportunity to take over a school where we feel she can make $10,000 a year. She says, "I want to teach my kindergarten class, and that is all there is to it."

MR. MANDEL: What kind of turnover do you have?

MR. GRASSGREEN: Very few in teachers.

MR. PITTAWAY: Within the federal system a number of operations that are running really large day care operations, about 5000 kids, are finding that they can get teachers who will operate day care centers for less than they are paying them to teach school in the same system. They will take those jobs in preference to teaching school.

MR. OGILVIE: The private schools have always had an easier time getting some of the most qualified people at substantially lower salaries. Lots of people don't want to go through two years of certification classes.

PUBLIC AGENCY PURCHASE OF DAY CARE SERVICES

Alan R. Pittaway, BOOZ, ALLEN & HAMILTON, INC.

I considered for some time the nature of the remarks which might interest this group. Since I recently completed a study for HEW on purchase of service in three states, which turned out for the most part to be purchase of day care services, I thought that you might be interested in a discussion of the buying and selling of day care services between public and private agencies. Day care costs are certainly not independent of the relationship that exists between the private and the public sectors in the contracting situation.

I would like to present information on basically four points: who are the buyers and sellers; what factors enhance or inhibit the establishment of the relationship between these buyers and sellers; the source of the matching funds required to obtain the 75% federal funding under the Social Security Act; and the problem of determining cost, including the buyer's involvement in the problem.

I should explain here that the Booz, Allen study on purchase of service was a study for the Social and Rehabilitation Service of the Department of Health, Education, and Welfare and we were looking at their programs exclusively. We concentrated on purchase of service under contracts and very little on vendor payments, although as a footnote I would say that we found very little vendor payment for child care in the states that we visited. We were also, then, confined ourselves to purchase of service under the Social Security Act as amended in 1967.

To begin on the first point -- who the buyers and sellers are -- we found that the buyers are distributed throughout the organizational structure of the state social service agencies. In the state-administered system, purchase can be negotiated anywhere from the county to the regional to the state level. In county-administered systems purchase from private agencies occurs at the county level, and from public agencies, at the state level. Consequently, the local seller of day care services often has great difficulty in identifying who is actually the buyer, who is the decision-maker, and who is going to sign a contract with him. In that artful game of pass-the-buck, the public sector can keep a private vendor running around for years trying to identify the buyer. We have run into cases where people trying to sell day care services had been going from office to office for as long as two years trying to find out who could or would sign a contract with them. Why these purchasers would keep a potential vendor running around is another question, of course, and there is an interesting answer to it that I will get to later.

The sellers, we found, were all nonprofit organizations and they represented a variety of different types. In a given community, contracting for day care was first accomplished with the old-line existing organizations, and these organizations usually were providing a variety of other types of social services in the community. A second group is represented by converted OEO Head Start agencies whose programs were being cut back. A third group is made up of the newly organized operations built around some sort of a concerned parent group which organized day care operations so as to have a place to put their children and children of other parents like themselves.

My second point is that we found a variety of pragmatic relationships influencing the buying and selling of day care services.

These revolved around the issues of why public agencies buy service, why day care operators take contracts, and why there is not more buying and selling of this service going on.

Why do public agencies buy day care? Many public service agencies do not believe they should be direct providers of day care services. There are numerous reasons why they feel this way: lack of in-house staff experience to run such an operation; special situations, such as personnel freezes; and suspicion of continuing federal support, which is a key reason. Public agency personnel are concerned that if they hired enough staff to supply child care services, in a year or two they might find that federal support would be withdrawn. Then they would be stuck with that staff, since under state civil service systems it is very difficult to get rid of staff once you have them. But primarily, public agencies just do not see day care as an area of direct service that they should be involved in.

The attitude of the public education system is another matter entirely. Many day care operations are under the direct control of state and local education systems. This leads to some rather bitter disputes about goals and methods of child care when the two groups are forced to work together at local levels. In state systems where a lot of child care is under the state educational system and the local system is forced to provide the social service component, there usually is no cooperation until very strong administrative pressures force them to work together. They have a very strong tendency to stay apart because of fundamental conflicts about the goals of day care services.

A second reason why public agencies buy child care is to take advantage of the availability of local private funds. In fact, it is almost -- but not quite -- a truism that currently contracts are let with the private sector only if the private sector puts up the 25% matching share required by the Social Security Act.

The third reason that public agencies contract for day care is to convert existing programs to new federal funding streams. In day care this means taking over OEO programs where the funds were cut back.

Now we come to the question of why day care operators want to contract. First, operators want to continue existing programs in the face of funding pressures and this is a new opportunity to do so. Pressure from cutback in OEO funding forced some to seek other new funding streams. United Fund pressures forced others to seek new funding outlets. For new operators of child care agencies a contract is their only real source of revenue; they subsist entirely on funds derived from the contractual relationship. In view of financial pressures from their boards and from United Fund organizations some private agencies have sought contracts to convert cases eligible for public support to public funding streams. Finally, child care agencies want to contract because they want to enlarge their services to meet an expanding need within the local community.

Why is there not more buying and selling of day care services? The enabling legislation has been on the books for about four years, but the extent of the activity in the private sector is still reasonably limited. The reasons for this vary. A primary reason and the first inhibiting factor I want to discuss is the shortage of available potential contractors in the private sector. The limitation in the number of trained administrative and service personnel to operate the activities, and the administrative talent with the necessary entrepreneurial spirit, is the most serious shortage. Venture capital to establish or expand an operation is hard to get. Contracts are let for a very short period of time, usually six months to a year, and rarely if ever beyond the state budget cycle, which means there is no guarantee past one contract period that there will ever be another contract. So it is difficult for a new organization to get the necessary capital to put itself into business, and there is a lot of capital required. Investment capital is needed to obtain and renovate the space and operating capital necessary to stay in business.

The public agency policy on cost reimbursement and invoice payment procedures also inhibit contracting. In the first place, full costs are often not allowed. The requirement that the 25% share come from private funds inhibits forming new contracting entities, and the requirement for reimbursement only after expenditure prevents advance payments and automatic progress payments.

These day care operations are very marginal operations for the most part. It is not at all uncommon for a contractor to call for his payment check at the public agency at the end of the month, to deposit in the bank to cover the salary checks that were issued the same day. Some of the county financial and accounting systems have tremendously long delays built in to them. Sometimes it takes two to three months to get money which substantially increases the working capital requirements.

Another inhibiting factor in establishing contracts is lack of suitable facilities. Suitable facilities have to be defined in many ways, but let's say there is a lack of facilities of a suitable size that can be converted to child care operations at a cost that most of these people who want to get into the child care business can afford to pay. Traditional old-line agencies which have endowments or investment income to use for capital can afford extensive renovation, but others can't.

Also there is an interaction between economies of scale and how many people you can put in a given size facility and still make a reasonably viable operation. If you have a facility that can only handle 10 or 12 or 20 kids, buy the time you staff up for it and try to make that a quality center, your costs per child may be considerably out of line.

Of course, major renovations are not normally allowed in the contracts as a recognized expense. Also, it is amazing that few of these private groups capitalize renovation expenses or charge them off as depreciation. On the other hand, it is also surprising how many public agencies will not recognize depreciation as a legitimate expense; rent yes, deprivation no.

The next inhibitor is the lack of money for the matching share. I have already mentioned that most local counties will only contract with a private-sector agency if the private sector puts up the 25%, and it is hard to get that money.

Another factor inhibiting the establishment of a relationship between buyer and seller is the fear at the county and state level that the federal government will pull out of the program leaving local government holding the bag. As an example, they point most recently to the OEO cutbacks. County commissioners are a politically oriented group, as you would expect them to be. Irrespective of what the local public welfare agency wants to do, it still has to get everything approved through the board of county commissioners. The county commissioners realize that if federal funds are reduced in a popular local program not under their tax control, then they will be faced with the decision either to raise taxes in order to continue that program or cut it off. That is a very unpleasant situation either way. So they are very reluctant to get themselves involved in any program where a large portion of it is being funded by the federal government. The credibility gap is wide between the local county officials and their belief in the continuity of federal programs.

The next inhibiting factor to consider is a lack of information on contracting activity. We found that there were two pressures that caused caused contracts to be written. One was extreme pressure by some private agency which just would not be turned down. Representatives of the agency got the 25% and convinced the county and the county board of commissioners that the program was not going to cost them anything and that there was a big community need for a day care operation. The second pressure was from established OEO Head Start programs or child care operations. In these cases, when the money was cut back the county went along with the idea of switching the program to a different funding stream and picking up the cost through Title IV-A or IV-B money. Where neither one of those two pressures existed, there just is not any contract for any kind of social service, let alone child care. There are various reasons for this, but one of the key ones is that persons in local public social service agencies do not have any idea of how to go about contracting. They have never been involved in contracting operations. Their purchasing departments, by and large, are not even a part of the social service agency. There is almost no information that exists within the state structure that tells them how to go about negotiating a service type contract. Consequently, unless somebody really forces the issue, they do not go to the trouble of finding out how to enter into such contracts.

A last inhibiting factor is the limited guidance from the federal government and from the state government. Most of the guidance available focuses on what they are permitted to do, not how to do it. The guidelines also assume that there is an administrative matrix available in state or counties that facilitates the purchase-of-service activities. Such a matrix does not exist. Purchase of service cuts across all of the functional lines in the state or county social service system, and as a result it falls between the cracks in the organizational chart. That kind of situation in a bureaucratic structure requires a lot of pressure to make someone assume the responsibilities.

As I said, unless there was an extreme pressure forcing the issue, contracts for services were not written. This is why a contractor can wander for months in the system trying to contract for service.

Now, I have talked about two of my major points -- who the buyers and sellers are and what factors inhibit establishing a relationship between them. It is time to talk about the third point briefly -- that is, what is the source of the 25% matching share. I am not going to dwell on this because new legislation may change this picture.

Currently, 25% comes form three sources: state appropriations, funds from the private sector, and other. In this last category are special funds from some federal programs which can be used to match other federal funds, such as Model Cities supplemental funds.

The 25% matching share that comes into a public agency from the private sector is handled by a series of gentlemen's agreements. The federal regulations state that such contributions must become unencumbered public funds and cannot revert to the donor. The provider base is extraordinarily thin, If a private group says, "I wish to donate $25,000 to establish a day care center in Haight Asbury," then, since there is only one day care center in Haight Asbury, they will get the contract. Or a parent group can raise $25,000, find a neutral source (such as some local foundation) and give the $25,000 to them, have them give it to the public agency, and the public agency then turns back and contracts with the parent group. No one wishes to relinquish control of money, and in this case donated funds are controlled through unwritten agreements.

Now let's turn to the final point, the problem of determining cost. I have already mentioned the difficulty resulting from the government not permitting certain items of legitimate expenses, such as depreciation and other costs, to be charged to the contract cost. But one of the most serious problems is the practice of establishing some fairly arbitrary fixed payment rate and then giving agencies a choice to contract for this or nothing. The payment rate is invariably below the operating cost if the federal standards are to be met. This means that the private agency that takes contract has to come up with some other source of funds in order to cover its costs.

The public agency likes to buy day care slots on the basis of lowest cost, but it does not want to pay for the slot if it is not used. The public agencies prefer to figure costs on the unrealistic basis of 100% occupancy rates when they establish payment rates with the private agency. They specify to the private agency privately, "We will give you enough people to keep your slots filled," but that does not happen because of sickness, the delays in determining eligibility, and so forth. So the private agencies always run something under 100% occupancy and they lose money.

Another interesting problem is found in the way public agencies specify the quantity purchase. The public agency obviously does not want to pay for services not received. However, how they define the service to be delivered often works severe hardships on the provider.

One situation we found in the Booz, Allen study was a county contracting on the basis that if a child is absent for more than five days in a month they would not pay for service to that child. The county picked up this concept from the public school system, where a child is not given credit for attendance in a month if he is absent for more than five days. This practice leads either to an extraordinary amount of lying on the attendance sheets kept by the contractor or to removing a child if it seems he is going to be absent for five days. Then the contracting agency immediately takes in another child so it can get the payment for that month. Consider for a moment that if you have five children absent you stand to lose approximately $350 apiece on them. That cuts into your operating revenues considerably. Remember there are long waiting lists, so if you remove one of these children then the mother has to quit work and stay home and it takes about a year for her to work up far enough on the waiting list to get the child back into the day care center. In the meantime she stays home and goes back on welfare. But the public agency believed they saved $250 that month because they did not have to pay for that child care slot. This is only one example of the lack of thought in some of these contracts.

The public agencies are not equipped to evaluate costs and standards. Costs span wide limits and the quality is extraordinarily uneven. In one county the day care costs were found to range from $94 per child per month to $312 per child per month in contracts with different agencies. What happens is that the contractor comes to the public officers with a budget and says, "This is going to be my budget." They sit down together and pour over this budget and try to come to some conclusion about whether or not it is fair and equitable. The public agents look at the standards documents, the federal regulations, the state regulations, and so forth, and they try to argue with the contractor about whether or not this is a good cost.

Neither side has any basis for argument. Neither of them can look at the standards and come to any conclusion on any sort of an absolute scale about whether or not this is a justifiable cost.

The contractor can always argue that the $20,000 he is paying the administrator really gives him a much higher quality program than if he were only paying $12,000 for an administrator.

It should be noted that the public agency at the county level usually has no money in this program anyway! The private sector provided 25%, and 75% came from the federal government; the public agency is only acting as a middleman.

Some costs very considerably. We have already talked in earlier papers about variance in in-kind contributions. The private operator has his own set of problems. His inexperience leads him to sign contracts on very unfavorable terms, as I mentioned above. This is not because of any bad intent on the part of either party. Everybody involved is trying to be fair with each other, to be very open, but their lack of business acumen gets them into bad situations.

The lack of experience on the part of the private operator leads him into some very bad budget preparations. Many budgets are prepared on incredibly optimistic bases. For the most part operators do not allow for any start-up costs. Their figures are based on 100% utilization from day one. They do not consider that there are going to be any costs involved in parent participation. They normally do not think about fringe benefits or vacations for staff. They do not put in provisions for training costs or for recruiting staff, nor do they think about the problem of turnover and retraining staff. They do not consider depreciation on their capital assets or their investments. They do not think about putting in their interest payments on borrowed capital and they have extraordinarily poor accuracy in predicting what their program costs are actually going to be.

As a result we get into this situation that Keith was talking about, that the half-life of a day care agency is three years, and a lot of them do not last that long.

There is a growing interest in the public sector at the local level on the cost of day care. Local county officials are becoming appalled at what some of the costs really are that they are paying, even though their own money is not involved. They foresee the day when they will be involved, and they are very up-tight about it. So states have gone to some rather extreme lengths. For example, one state has said as a matter of public policy that it will not reimburse day care or permit day care to be reimbursed in the state for more than $5 per child per day because to do so would upset the whole economic situation with regard to child care costs for all buyers of child care. Even though the federal government will pay much higher costs and will pay any cost that anybody comes up with, the state will not reimburse on a contract basis child care costs greater than $5 because to do so would drive the middle-income family out of the market. In Alabama a contractual relationship with the state determined that the maximum they would pay is $15 a week. You were saying some states only allow $5 a day. Alabama allows $15 a week, which is less than $5 a day. And day care slots are bought in Houston for $5, $6, or $7 a week. It is the maximum they are allowed to pay under their law.

But you see, that does not change the situation. Irrespective of that, it is still costing you $9 to $10 a day for child care under federal standards. It means that somebody else is paying the cost. The money is coming from someplace else. The revenue consumption, or I should say the resource consumption, to society for child care under federal regulations runs $9 to $10 a day anyway you splice it. If the federal government says that in a Department of Labor program it will pay $6 maximum, that just means that $3 is being paid by somebody else, someplace else. If a state says, "We will pay $15 a week maximum," that just means that somebody else is picking up the cost someplace else.

As long as the standards are set where they are, the resource consumption occurs and you are just kidding yourself if you think that you can control this through some payment cost system.

This concludes my talk. It is kind of a highlight of the situation as we found it in Pennsylvania, Wisconsin, and California.

* * *

MR. PITTAWAY: I would like to go back to the question that came up a while ago about staff and costs. Yesterday you were saying, Dick, that when you analyzed your staffing patterns in a particular center at this end of the month and you found out that you had 20 kids in the morning and only 10 kids in the afternoon, then you saw to it that you dropped one afternoon teacher in order to keep your costs down. That isn't done in nonprofit agencies. If you have 30 kids, then you might have a social worker, a cook, an administrator, and a nurse to handle a lot more than just 30 kids. They can handle 60 kids in that over-head portion. But they go ahead and hire a full-time social worker, administrator, and so one, and they keep them on the staff full-time even though they only have 30 kids. If they had had space enough for 60 kids, they still would have had just one administrator, one social worker, and one cook. So they don't really make intensive use of people.

MR. RUOPP: I think that is one of the distinctions between the good nonprofit agency and one whose half-life is three years or under. It is precisely the way they control personnel inputs. The smart operator who has been in Head Start has the same entrepreneurial instinct, I think, as the profitmaker. He knows that a quarter social worker is better for his situation at the moment until he gets up to a certain number of kids.

The point you were making that made more sense to me is that I think there are economies of scale at the bottom end that we don't know very much about. That is, if we are correct that the director is a critical element, it means that kind of person with entrepreneurial instincts will go into a nonprofit center, and I suspect that center is going to eventually see some reasonable rewards.

Ten children simply won't support a staff of two. So we don't know what the breakeven point is. It is my own suspicion that somewhere around 25 to 30 children would be the number. Below that, there gets to be a serious problem. My suspicion is that the entrepreneur who is going to be successful knows how to get full resources, perhaps by bringing in doctors and other kinds of community support and that he has to provide service for more than just 15 kids. That size is not competitive whereas 60 or 70 kids begins to be highly competitive.

MR. GRASSGREEN: There is also one other factor in the economics of size; that is the physical factor. The increased cost in the physical facility of a new facility -- I am not familiar with renovating -- in going from a licensed 70-child care center to a 100-child center is not in relation to the numbers of students. Usually the size of the land you buy will be more than adequate for 100 children as it is for 70. So, your land cost, which is $30,000, we will say, does not change. Therefore, by going to the larger center and having the same fixed capital costs, economically you should have a greater return. The increased cost in construction is not that great in relationship to the total cost. You have a slab and four walls and you just increase the size.

MS. ROWE: I would like to speak for a minute about the question of economies of scale and see if we can lay this subject to rest for this particular conference.

I think there has been a misunderstanding arising partly from the fact that we continually discuss different products. Those who have argued for economies of scale rightly argue for economies of scale in those processes where the product is built on large divisible units of inputs. At the other end of the scale, there is child care, delivered in a variety of ways. There are no problems of economies of scale, as an economist knows.

Suppose you are going into a Kinder Care sort of business. It is planned that you are going to get economies of scale, although you may also get a drop in quality of product, which we can't specify, so we have a hypothesis at the end of that discussion. In a nonprofit center -- the little center where administration is carried by a teacher -- or in a family day care situation, or in any small child care center where care is delivered to 5, 10, 15, or 20 kids, you may actually have a very low cost for the product being delivered, for any of a number of reasons.

Let me say one more thing about the attrition rate to put the picture in perspective. The attrition rate in the United States is on the order of 25% to 40% a year for any kind of small business of the size we are talking about. It is not at all surprising that we go into child care enterprises and find that 25%, 30%, or 40% a year of them are dying because of bad management. It is a classic pattern for small business anywhere in the world. It is not at all unreasonable to say the ones that survive are going to be the ones with good managers. I would like to get us away from thinking that there is anything spectacularly peculair about the poor management of many small child care enterprises. They are like many others in that respect, both profit-making and nonprofit.

Let me summarize. In the economies of scale question, there is the hypothesis that quality may drop off as size increases. It has never been tested and it is foolish to argue it. It is either a question of values or a question of fact which hasn't been decided yet. Second, there are lots of small enterprises that deliver child care at lower cost than larger ones just because they have production processes that are optimally using space or whatever happens to be available. I really think that if we are to teach anybody anything about child care costs, it is to look at the resources available to you and see whether in your situation with regard to space, people, and administrators, your breakeven point is at 10, 15, 20, or 2000 children.

MR. RUOPP: When you are talking about large centers, you are talking about large single units. You haven't talked about the potential benefit of systems as a way of organizing small units. All of our systems, for example, had smaller units of delivery than some of the large single centers in which we found this problem of a fall-off of quality in our systems. There are benefits to large systems that can produce national economies of scale.

MR. SONENSTEIN: As we have changed the size of the center drastically, there appear to be very different management requirements for different size centers. The requirements of managing a center with 75 children, 15 teachers, and 75 parents are very different from the requirements for managing a small 15-child center with a couple of teachers.

The economies of scale, which are simply the spreading of fixed costs over more income-producing units, may not be realized at all if the management is not capable of keeping those costs fixed and managing the variable costs.

I would argue that there are some economies of scale in centers of a given size, but those economies cannot be realized without a corresponding level of management. I would also suggest, and I think I can point this out a little later, that there are some tempting false economies of scale that appear to be within reach as you get up to the 60-child center. There may be some questions about threshold that we will get into here because the incremental return from additional children as you are up on the top to the 60-child level appears to be very tempting. It appears that an additional child will generate an enormous amount of profit, and the important question is, What happens to quality and the strain on existing management skills as you move over the 60- or 70-child limit?

MR. PITTAWAY: Permit me to agree with your very excellent point and extend it back to another point that I think we might very well focus on today in more depth. It has been mentioned several times -- the administrator problem. Where are we going to get the administrators to run these systems, people capable to taking all factors into account and making most effective use of them?

MR. RUOPP: The question of which market we are serving has to be clarified. From the standpoint of cost of child care in this conference, the data that we get from private entrepreneurs serving the middle class are not particularly helpful because we don't know yet what the extra requirements in costs are for serving populations who do not serve themselves with respect to transportation, health, and other remedial services that we saw in every center that was dealing with children from low-income families. The government is not providing child care for the middle class. We cannot, therefore, use middle-class data on child care.

It is these kinds of distinctions and refinements, it seems to me, that will help move us into some of the areas you talked about.

MS. BELL: In your talk you touched on the subject of children being dropped. Did you come to any conclusions about what is a valid over-enrollment? Head Start has used 5% and then they have used 10%. I have been in Head Start centers that have over-enrolled as much as 100%, with no chance of ever having more than their regular number in that center. I could name ten Indian reservations, just offhand, that I know are doing this because of the scattering of the children and the occasional visits to the center that these children make. Is there any point where, if you over-enroll more than 5% or more than 10%, that you then start really dissipating any possibility of constant interaction with these children or with their families?

MR. PITTAWAY: It was a question that we did not examine in this particular study. There is a reason that we didn't get into this kind of thing. A whole area that I did not touch on is the problem of quantity and quality relationships in contracting for management in day care.

The public agencies are not really very well-equipped to monitor quality-quantity relationships in a contractual situation for any kind of services that they buy, and particularly not in day care. As a consequence of this, they have a tendency to hang on to almost anything that they can quantify to judge whether or not the contract is being adequately performed.

Strangely enough, one of the things they have gotten hung up on is that one must never have more children in a licensed facility than it has been licensed for and, therefore, usually the contract specifies that there will be no enrollments greater than what has been licensed for. So the problem never materialized.

MS. ROWE: I wanted to say one thing that I think was never clear yesterday. Our larger centers were not as good as the smaller ones. If we took the centers as they were, the larger centers appeared to be not as good. If we then imagined controlling for staff-child ratio on the basis of this small sample, we still got a negative residual between size of center and excellence. That negative residual was not statistically significant, but appeared in that direction and in that size in all the analyses we did. We assumed that the negative residual might have to do with such things as spreading the director, which some of us have had extensive experience with. It may be that spreading the director may not work if what you want out of the center is warmth and positive response to kids.

Or it may be that in large centers adults spend more time with adults and less time with children and this produces a center in which adults are less involved with kids. There is considerable evidence that that is the case, though it is not the sort of thing you can prove.

MR. PITTAWAY: Is there a possibility that one can also make a slightly different interpretation of that piece of information? Could it be that the characteristics of an individual who has the spirit, drive, and will to create an excellent center is such a dominant influence in the life of the entire center that that in itself is a reflection of how the center operates? Perhaps the problem is that we don't have enough of those kinds of people.

MR. McCLELLAN: You did a very good job of focusing on the problems of dealing with state and local governments. There must be some offsetting advantages to doing business with state and local governments because there are some competitors for state and local government business. What are those offsetting advantages?

MR. PITTAWAY: I am not sure whether this is a rhetorical question. Do you have an answer you want to put to it?

MR. McCLELLAN: No, I don't. I just think there must be some attractive profit-making advantages that are involved in dealing with state and local governments. Those advantages may have to do with monopolistic situations. They may have to do with noncompetitive arrangements. They may have to do with a lack of monitoring ability associated with funding through those sources. But there are some offsetting advantages, or at least one would think there are some offsetting advantages, because there are so many people in competition for that business.

MR. PITTAWAY: I will throw out a questionable one. If you are a very marginal operator, it is a lot easier to deal with a public body than to deal in the commercial marketplace.

MS. BELL: I think this is not really an answer, but maybe an example of why some persons choose to deal with a public body. In the 4-C program proprietary operators have become nonprofit operators by taking in essentially the same kinds of children, but through the welfare department or the Community Chest agency. In this way these people can salary themselves at a considerably higher salary than their original "profit." I have dealt with these ladies. I have watched their income change from the $4000 a year profit they had previously made, to $7500 as the "director" of the center. Initially they took in children to earn something extra. By going nonprofit, by becoming part of that community purchase of services, they have, in fact, doubled their own salaries. They have improved the facilities in the centers. They have cut their costs in terms of food, perhaps, but they haven't increased the cost per child in these centers in many cases.

MR. OGILVIE: Is that good or bad?

MS. BELL: I am not really sure. I am simply saying I think this may be part of the reason for the competition for contracting with public bodies. It is nice to know that I am going to have a salary whether or not may average daily attendance is there, because I am funded for that salary. If I have to count on Mamma bringing her youngster, but youngster goes to camp or on vacation, and I lose that salary, then I am back to the $4000 level again.

I think this, in part, explains some of the competition. I would anticipate many more people changing: the lady down the street who puts a little sign out in front of her house and calls it "The Shoe," or some clever thing, will be moving into a nonprofit role.

MR. BYRD: Where we are working with community organizations and trying to use day care as an economic development device in the community, we are advising those people to give up their profit-making entity and go nonprofit because, just as Ms. Bell said, we can then show the person how she can make $10,000 a year rather than struggling along on $4000.

We are really doing two things. We are economically benefiting a person who is operating the center and we are increasing the quality of the center. We are enabling operators to use the money in the program to renovate their centers so they can get more people in, and at the same time we are providing day care where it is not being provided through the private entrepreneurs.

MS. ROWE: One thing we should consider is what will happen when all child care workers are covered by a federal minimum wage. We have discussed in elaborate detail the importance of figuring in-kind donations because we expect that as more women work for pay, volunteerism may disappear from child care as it has from so many government programs.

I think this is an extremely mixed blessing. One likes the teenagers and the foster grandparents. One also is delighted if the lady who has been performing a public service goes from $4000 to $7500 in income, especially if she is doing a good job. I will be delighted when all of the people are paid federal minimum wage and half of the teachers are men.

MR. OGILVIE: One cost question which I know is bothering a lot of policy-makers now is that people are going to have to start purchasing service for day care one way or the other if any of the legislation passes. How do you determine how much money you should pay for that? Somebody has to set down some rules and regulations about determination of fees.

It seems to me there are a lot of different ways you can do it. You can have constant interaction on a contractual basis, to say "that is a good expense." Or you can just say "Day care in this area is worth X dollars and I will not pay more than that. Anything less than that, we will negotiate." Or you could just set a flat fee for everyone, pay nothing below that, and forget cost altogether.

I know this is another lecture on your part, but could you give us some brief idea on what your feelings are on how fee determination can best be accomplished?

MR. PITTAWAY: I don't think that is a question I really can answer without stopping and giving it some very serious thought.

MR. OGILVIE: Maybe you could just give us some idea whether you would prefer a flat fee system to a negotiated cost system, excluding advertising.

MR. PITTAWAY: No. Let's back up one step further. Somebody has to come to some conclusions about the goals they want to meet before you can ever start addressing that kind of question. You have to be much more specific about what your objectives are in a particular center, in a particular operation, in a particualr community, or what-have-you, before you can begin to answer such question.

There is going to be a lot of custom tailoring that will have to be done. It is not a question that can really be answered in the abstract.

REIMBURSING DAY CARE COSTS

Burton Sonenstein, PEAT, MARWICK, AND MITCHELL AND KLH CHILD DEVELOPMENT CENTER

I am speaking from two points of view. One is from the point of view of a management consultant who is working with state agencies that wish to purchase day care from proprietary and nonprofit institutions. Specifically, we developed a system for purchasing child care for the state of Indiana. Bob Elkin in our Washington office was responsible for this project, and I am really speaking from Bob's workpapers. There is a detailed report available, I would guess, from the Indiana Department of Public Welfare. It sets forth an operating system for purchasing day care for a state agency. It addresses many of the issues that I will cover very quickly here about what you have to be concerned with when you are purchasing day care on a large scale, at either the state level or the federal level, and what sort of issues have to be raised about how to purchase day care.

Then I would also like to speak from the other side, that is from the view of a provider of day care. I am now president of the board of the KLH Child Development Center. We provide day care for several purchasers in Cambridge -- the State Department of Public Welfare, Polaroid Corporation, KLH Corporation, and others. We also provide day care to individual purchasers within the community. I would like to talk about some of the problems that we face in dealing with purchasers of services and some of the issues that I think a day care center would face as it attempts to supply the facilities on a purchase-of-service basis, particularly some issues about the costs as related to quality.

I think our overall premise is that when the government moves into the purchase of service in the day care area on a large scale, the way in which they purchase services is going to have a major influence on the cost behavior of day care. The policies that are established and the manner in which day care is purchased, either by the federal government or by the state agencies, is going to have a tremendous influence on the way people provide day care and on what their cost structures are for providing day care.

We identified in Indiana two general types of purchase systems. One is a cost-based system, a system that the government uses often to purchase health services. In this system a provider of service is reimbursed according to his actual costs. The second system is a rate-based system, a system similar to one in which flat rates are used. In such a system, the providers are reimbursed according to their existing rates, which do not necessarily relate to the cost of providing service.

There is a third overall system, a voucher system, which I think is in the developmental stages. I am not going to comment on it specifically now, except to say I think it is a radically different system for purchase of care. It does not rely on a provider-purchaser relationship between two agencies or institutions, but deals with purchase of service by an individual from providers and it has some different considerations.

The alternatives that we examined for the state of Indiana were either a cost-based system or a rate-based system. We found very quickly that a cost-based system had certain requirements which raise some serious questions about what has to be done before it can be implemented. It necessitates a uniform classification and reporting of financial data. If any central agency is going to purchase based on cost, there must be some agreement about what constitutes cost and how costs are classified, so that several vendors can be uniformly reimbursed.

A cost-based system requires data on the capacity and use of that capacity for day care centers. Specifically it requires data on enrollment, attendance, and absenteeism. The cost-based system also requires a central administrative organization which is capable of analyzing costs and setting rates based on costs, and, finally, capable of verifying costs.

We found in Indiana there did not exist a uniform classification for reporting financial data that would make it possible to implement a cost-based system immediately. There were not sufficiently accurate utilization data available at the existing day care locations. The state itself did not have an administrative organization with the staff capabilities to analyze costs, set rates, or verify costs. For these reasons, we recommended that a rate-based system be used. Arbitrary rates were agreed upon for each day care center, often based on the existing fee system of the center.

However, the state intends within one-and-a-half to two years to implement a cost-based system. We think something on the order of that lead time is required to orient the individual centers to developing and reporting financial data in some uniform manner. Perhaps more important, the lead time is needed to get the state to the point where it is capable of responding to cost-based data in some meaningful way.

Incidentally, we talked about the lag time in reimbursement payments. At KLH we experience a two- to three-month lag time in reimbursement payments. That means delaying $10,000 to $15,000 a month in reimbursable expenditures. We will at times pay out $10,000 to $15,000 and not receive reimbursement for those expenditures for 60 to 90 days. That creates significant cash flow problems. The ability of a state to respond on a cost-reimbursement basis is critical to the existence of day care centers under the cost-reimbursement arrangement. The feature of a cost-based system as opposed to a rate-based system is that reimbursement based on costs provides an opportunity for control over expenditures, both at the day care center level and the administrative level, not at the state or county level.

A cost-based system provides for equitable and uniform treatment of vendors. Vendors are reimbursed based on their actual cost, and vendors with different cost structures, providing different ranges of services, can be reimbursed based on the difference in the services they provide. An arbitrary rate-based system tends to place reimbursement on a rate which may bear little or no relationship to actual costs and may not be equitable to different vendors providing different services.

A cost-based system is responsive to the geographic and economic differences that are related to costs. Such differences, as the Abt study has shown, have considerable impact on the cost of service. A cost-based system, if intelligently designed, can provide the management of individual day care centers with valuable information. I have been continually amazed at the lack of cost information at day care centers, the inability of management to understand even on a line-item basis how costs are incurred, and what the effect of decisions are on costs. Many day care centers do not operate with a budget that really is meaningful in terms of costs.

I will touch quickly on the elements of a cost-based reimbursement system. These, again, are the elements that were recommended for the state of Indiana. They have the following components.

First, there must be reimbursement for a core of day care services.

We broke the basic day care services into three identifiable elements for cost reimbursement. The first element was defined as child care, which included instruction, health, nutrition, parental activity, and staff development -- a basic core of services that would be identified and reimbursed separately. We did not, for purposes of this system, subdivide basic child care services into functions. I think this raises an issue that you may want to discuss: are different details of cost necessary to identify costs for cost reimbursement and for management purposes? I would argue that management would want to know the functions that make up the cost of basic child care services. I don't think it is necessary for the state or federal purchaser of services to get involved in the cost of specific functions that make up the core services, except for cost-incentive type arrangements, which I will discuss in a minute. The second component of the basic service that we felt should be separately identified and separately reimbursed is the social services component. Variety among centers is such that social services need to be separately reimbursed. This component is basically the cost of social workers and social service counseling, which may be provided. If it is provided we think it should be identified and reimbursed separately from the basic day care services. The third service that should be separately reimbursed is transportation, again, because it is a significant expense and it is one that is not offered at a sufficiently large number of centers.

A second element of the cost reimbursement system is the cost for what we call management and general expenses. We felt these should be separated from the costs of the basic day care expense. This component includes the administrative costs as opposed to the direct costs of providing educational programs. It would include the occupancy and overhead costs, salaries of the executive director, the bookkeeper, and the secretary, to name a few. The Indiana system is designed to reimburse both proprietary and nonprofit centers. It would include the owner's salary, if the owner operates the center. It would also include a factor for profit over and above cost.

Third, we felt that in a purchase-of-service arrangement based on cost, the issue of depreciation must be considered. Most nonprofit institutions do not take depreciation as an expense. They write off any major equipment or capital expenditures when they buy them on a cash basis. In fact, generally accepted accounting practices for nonprofit institutions, with the exception of hospitals, recommend that depreciation should not be considered. We felt that for a cost reimbursement system to be equitable, depreciation must be allowed as an expense. This means that the cost of fixed assets must be spread over the operating life of the assets and reimbursed on that basis.

MR. PROSSER: Are you saying that they allow you to write capital expenditures off in one year or that depreciation is disallowed?

MR. SONENSTEIN: I think one of the problems has been that accounting for nonprofit institutions has not considered the problem of purchase of services, so that most of the nonprofit institutions charge off the expenditures for fixed assets in the year in which they are incurred. They may not do it in their operating statement, but they may do it in a plant fund or in some other way.

If you look at the financial statement for a college or university, you will often find that the operating statement does not contain any capital expenditure items. The philosophy behind that was that most capital expenditures would be financed by contributions.

MR. PITTAWAY: There are no tax advantages?

MR. SONENSTEIN: That is right. Depreciation does not provide any tax consequences since a nonprofit organization does not pay taxes.

Again, we feel that if a cost-based purchase-of-service system is used and depreciation has to be included as a cost, that means that fixed asset records -- records of purchases of equipment and buildings -- have to be maintained. In most centers they are not maintained at all.

We felt that a purchase-of-service system must provide the ability to distinguish between day care services and program services not related to day care.

Obviously, you can only reimburse, under this system, for the day care services. There are many multi-service agencies which provide day care and which do not separately account for it. Many of the agencies that a federal or state government would be contracting with would be multi-service agencies, such as a community action agency.

For the purposes of reimbursement it is necessary to separately account for the day care services and separately report day care expenditures, excluding expenditures not related to day care, such as adult education, family counseling, and so forth. We felt there were certain expenses which should not be reimbursed under a purchase-of-service system. These included such things as expenditures paid for by other governmental institutions -- for example, food. For a purchase-of-service system, it should be considered as a reduction in cost and should reduce the basis of cost that is reimbursable. It was felt -- and I am not in complete agreement with this -- that the costs of research, public relations, fund raising, and the cost of donated goods and services should not be reimbursed on a cash basis by someone purchasing the service.

I think costs of public relations and fund-raising raise a different kind of question. I find that the problem of separating out these costs exceeds the savings to be achieved by not reimbursing them. I don't think they are significant enough. In some nonprofit organizations there are people whose full- or half-time job is fund-raising and public relations, but I don't think this is the case in most day care centers.

MS. ROWE: We find that a really significant amount of the director's time is spent in resource recruitment. If you think that the average budget is 25% in-kind and that parents pay on the average of 15% of the cost, you will see that some of these centers are using a lot of resources.

MR. PITTAWAY: I would think you ought to permit the cost of in-kind resources, either the value of the goods and services that have been donated or the cost of getting it.

MR. SONENSTEIN: I cannot justify a cash reimbursement for the value of donated goods and services. I don't think a government organization could possibly do that.

MR. WARNER: In a sense that is something paid for by someone else.

MR. PITTAWAY: The operation is based on the fact that those goods and services have to be there or there will be no operation.

MR. OGILVIE: It is strictly not allowed in government contractual relations.

MR. RUOPP: What about recruitment of children?

MR. OGILVIE: It might not be allowed.

MR. SONENSTEIN: We identified several controls which we felt were possible to be exercised by the funding agency under a cost-based system. They are basically the controls that can be exercised by uniform classifications and reports, by the ability to reimburse certain costs and not others, and by the ability to provide cost incentive reimbursements. There are controls on the amount of depreciation that can be taken. Basically we recommend that depreciation be limited to the amounts that are allowable for federal income tax purposes.

We recommend that limits be developed on profit and on the owner's salary in proprietary centers. The question that has to be faced is, On what basis do you limit the profit of a proprietary center? There are two possibilities that we considered. One is profit limitation based on return on investment, and the other system is based on profit as a percentage of cost. The latter system is used in cost-plus contracts with the federal government.

MR. OGILVIE: Do you recommend it in spite of its inherent disadvantages?

MR. SONENSTEIN: Right. The greater the cost, the greater the percentage.

MR. PROSSER: You negotiate a fixed fee regardless of what your costs are, instead of giving, say, 10% of the cost. If you say, "You are going to get a fixed fee. We estimate your cost is going to be $100,000 and a reasonable rate if 10% so your fixed fee will be $10,000. Now if the cost is above or below that you still get $10,000," that is different from saying, "We will give you 10% of the cost, irrespective of what your costs are."

MR. OGILVIE: They will give you a profit for your overrun.

VOICE: Let's say that the cost of service is $25 per child per week. Although the fixed fee is calculated in relation to that cost, the profit may be $5 per child per week as a fixed fee but it is built into a rate that is related to cost.

MR. PROSSER: Right.

MR. SONENSTEIN: The state of Indiana will use this sort of profit reimbursement as opposed to a return-on-investment reimbursement.

MR. GRASSGREEN: Assume you contract for $25 per child per week, using this as a cost factor, and you add a $5 profit, so you are talking about a $25 cost factor plus a $5 profit factor or $30 per week per child. You submit this and you actually go ahead and produce the service at a lesser amount such as $23 or $23.50, but keeping the same profit. The difference between the $25 and $23 the -- $2 -- to whose benefit does that go?

MR. SONENSTEIN: This gets into whether the cost reimbursement is based on this year's actual costs, last year's historical costs, or this year's projected costs.

MR. OGILVIE: His question was what happens if your actual cost wasn't as high as your projected cost, and the answer is that it depends on every contractor.

MR. SONENSTEIN: Often the costs are negotiated.

MR. BYRD: In negotiating these contracts where you have a cost plus fixed fee, are you allowed to include your overhead and general administrative costs (G & A)?

MR. SONENSTEIN: Yes, that is the management and general category.

MR. BYRD: What do those percentages normally run?

MR. OGILVIE: From as little as 20% to as high as 30%.

MR. SONENSTEIN: It depends on what expenses you include, and no one uniformly includes certain ones and excludes others.

MR. BYRD: What if I am including the fringes?

MR. SONENSTEIN: At KLH we don't include the fringe benefits to the staff. We include that as a direct educational expense. Fringe benefits would account for a 5% difference.

Our overhead expenses at KLH are broken into two parts -- the occupancy-related expenses and the administrative expenses. Our occupancy expenses are extremely high. They run almost 25% of our total costs. They are extraordinarily high for a day care center. Our administrative expenses run 15 - 18% of our costs.

MR. RUOPP: Is that separate from G & A or is that what you are calling G & A?

MR. SONENSTEIN: G & A would be the expenditure for the secretary, the director, and so forth -- what I called administrative expenses.

MR. GREEN: With 25% occupancy cost you have an unusual circumstance.

MR. SONENSTEIN: Right. We recommend that ceilings should be placed on cost rates, that the government should not reimburse actual costs ad infinitum, but only to some maximum amount. We recommended that these maximum amounts be set for the cost of day care, the cost of medical services, and the cost of transportation.

I think it is interesting that the state of Massachusetts, which does work on a cost reimbursement basis has recently imposed ceilings on costs. They have limited costs to $40 per child per week. That puts centers such as KLH in a real bind because our costs are running between $45 and $50.

MR. PROSSER: Have you seen any use for cost-plus incentive fees?

MR. SONENSTEIN: No, but I have given some thought to the way government organizations might deal with the problem of incentives. I can perhaps speak about that. I think that reimbursement based on reasonably uniform cost information provides an opportunity for the government to stimulate certain kinds of costs if the relationship between costs and quality could be worked out in any meaningful way.

For example, a center might be reimbursed over and above its existing cost structure. It might be reimbursed additionally for lowering the staff-child ratio. That could be used as an incentive, if it is felt that the lower ratio tends to produce higher quality. A center might be reimbursed on an incentive basis for the attraction of in-kind services.

Another example of incentives would be if the federal or state government would pay 25 cents for every dollar of in-kind services that a center attracted. If the government is simply paying for the cost of service there may not be the incentive to go out and get in-kind service.

MR. RUOPP: One of the hypotheses of the Abt study was that somewhere between 20 - 25% is the measure of in-kind program help. If that were the case, incentives might fall off on either side. If you get too much in-kind donations you would lose incentive. If you could measure reasonably accurately that spreading into the community certain kinds of parent participation and gathering community resources is a way of improving the health program, then you could establish a specific range within which that incentive would operate. So if you got more than 25% you would lose your incentive.

MS. ROWE: Those who haven't seen it might be interested in the impact study of day care which goes elaborately into the question of incentives, and voucher payments, and so on. I am not suggesting that it has the real truth, but it has one set of possibilities about how an incentive system might be built in to day care. The image of this whole day care system means a great deal.

If we assume that the federal government is paying for a certain proportion of child care costs --if, for instance, we made the calamitous mistake of having Senator Mondale or someone else agree to subsidize 30% of child care costs -- then we would quickly have a system where everybody tries to beat the system to creat profits. If all governments get together and set a flat rate people will try to undercut it, take profits off of it.

The incentive system is quickly lost, and who wants to volunteer in such a system? If, however, we began with the assumption that all governmental contributions were intended to be a part of the payment, they could be matched if they had to be matched. For instance, our image of the FAP program was that the government was helping people to do their own thing, whatever that is. In Sweden, which is an excellent model along these lines, the easy entry provisions mean that any group of parents or any organization that is acceptable to a prime sponsor -- as is stimulated in the Brademas bill -- could do their own thing. They could provide Kinder Care at whatever rate was acceptable in that state or to group. Harvard graduate parents could get together and provide care that fully costed would be $5000 per child, subsidized, so that it would be assumed that the government was only helping, and it would be assumed that tremendous diversity was in order.

I suggest that money should be available for family day care, and it probably should be available for any kind of licensed home and maybe even for nonlicensed homes, as is discussed in that impact study I mentioned. At least half of the total state money involved should be available precisely on an incentive and package program basis.

Let me come to my second point. One of the things I like very much about what was proposed for Indiana is precisely this use of the functional budget. If a government reimburses for child care, for social services, for transportation, for management, two things happen. One is that you can allocate money much more easily on an incentive basis. You can simply give it to people who put in one of additional specified programs. Second, it is an ideal system for protecting staff-child ratios. If the money is broken up in hunks, you can insist that certain minimum specifications be met within the child care and teaching area and guarantee that money won't be taken from there and used for transportation or whatever else, especially in a proprietary center.

It is critical that the image of government support of child care should be that it is for specific program purposes rather than a lump sum taking care of all costs.

I should say this leads to vouchers, I think, because it turns the system back into a free market and makes each individual do the donkey work.

MR. SONENSTEIN: I want to stress that the number of categories of reimbursement should be limited. It is important to segregate the basic educational day care services; the cost of management, occupancy, and general expenses; and the supplementary services -- the social services if they are provided and transportation if it is provided.

MR. RUOPP: Health?

MR. SONENSTEIN: Health we consider a part of the basic service.

MR. RUOPP: Up to what? You don't mean special health needs?

MR. SONENSTEIN: If it got to be that much of a factor it would perhaps be a separate program.

MR. RUOPP: We think it is.

MR. SONENSTEIN: Our experience at KLH shows the inequity of a flat rate. We are reimbursed $40 per child per week. Our occupancy costs run almost $10 per child per week. A center down the street in a church basement, for example, will have no occupancy costs, or low occupancy costs. We are forced to take money out of our educational program to pay our occupancy costs, whereas a center with a different cost structure is able to provide a much different kind and quality of day care, so that we think these differences should be recognized.

MR. OGILVIE: From the federal government's point of view, assuming the quality of care is the same, wouldn't the government be much smarter to buy services from the one that has the lower occupancy costs?

MR. SONENSTEIN: It depends. We are providing a special service in that our day care location --

MR. OGILVIE: I said, "Assuming they are of the same quality." The reason you have a difference in cost is because you have a high-cost building.

MR. SONENSTEIN: That is because we are in industry-related day care centers providing a service different from the community based center, so it is a different service of the same quality.

MR. OGILVIE: But you seem to be arguing that the federal government should be willing to pay more for the same service because somebody has a higher cost for occupancy.

MS. JONES: There is another side to that. We are running out of church basements. While it may be nice to assume the churches are supplying occupancy costs, frequently they are not, and frequently the day care center is put on the street by the fire inspector. There is a tremendous need for capital equity in day care and nursery schools. Most centers don't own their own buildings. The KLH group does. They are not likely to be put on the streets. To assume that rented facilities in church basements are going to meet the need for day care is just crazy because it is not meeting an existing need. The churches are in financial trouble also. So more buildings, renovated warehouses, better child facilities are going to be the most important money-saving items in good child care in the long-range view.

MR. SONENSTEIN: We leased a renovated factory.

MR. PITTAWAY: We shouldn't judge the future by the past, either. We are talking about day care in this country that is going to be materially different in a few years from what it is now. We have about used up the church basements.

MR. SONENSTEIN: I would like to quickly run through some of the experiences we have had at KLH which I think you might find interesting. At this time last year we were funded under an HEW-OCD demonstration grant. It is a three-year grant which terminated last June 30. Our projected cost of day care under the grant was $50 per child per week. Our actual cost was running about $85 per child per week because we had approximately half the enrollment that we had anticipated. We also were paying staff salaries that were among the highest, I think, in the greater Boston area.

When our federal funding terminated and we were forced to face the issue of how we could survive as a day care center in a competitive day care economy in Boston, we had some very interesting analyses to undertake. We had to decide, given the building that we were in and given the kind of quality day care that we wanted to provide, what was an economically viable basis of operation.

Many of the factors that were considered have been documented in a research study which HEW paid for as part of the demonstration project. This has been made available within the last month from the center and it documents the analysis of how costs behave at the various levels of operation.

As I say, we are operating, with 25 to 30 children, a prohibitively expensive center. We considered what would happen to our costs if the center were increased to 50 children, to 60 children, to 75.

The center now operates with an enrollment of approximately 75 children. We have a teaching staff of 14 and a total staff of 18. We still pay well above the going rate for staff, based on the philosophy, which is quite strongly held to within the center, that existing salaries in the day care field are exploitive and are well below the compensation that should be paid for the service being rendered. For example, under the HEW grant we paid our director $15,000 a year. She accepted a $4000 a year salary cut when we lost our federal funding. She now recieves $11,000 a year. We have three head teachers who are paid more than $8000 a year. These salaries, although they are not, perhaps, above the average in elementary public school education, are considerably above the going rate for day care staff. We pay our teacher aides a minimum of $2 an hour.

MR. GRASSGREEN: I have read your KLH report. I think when you redid your expenses you cut about $60,000 worth of expenses. Am I right?

MR. SONENSTEIN: Yes.

MR. GRASSGREEN: Did you change the quality of the operation?

MR. SONENSTEIN: That is a very tough question.

MR. RUOPP: You increased your in-kind donations. The director now contributes $4000 a year.

MR. GRASSGREEN: The staff just got paid what they should be paid.

MR. SONENSTEIN: I think it was a combination of the two. Many of the services we paid for we are not now paying for but are still receiving. In addition, some of the services we paid for previously we are not getting at all at this point.

MR. GRASSGREEN: I don't agree that you can say the director whose salary was cut from $15,000 to $11,000 is donating $4000 worth of services. I disagree with that definition of in-kind donations. Actually you are probably paying that individual a higher salary than she would get out in the open market. You just said that, am I right?

MR. SONENSTEIN: The existing market we think is not equitable for someone who works 70 to 80 hours a week.

MR. WARNER: But equity is a whole different matter. People don't base salaries on equity. Let's stop talking about that.

MR. GRASSGREEN: Again, there were more dollars available when you had a HEW grant, and you spent more. Now that fewer dollars are available. . . .

MR. SONENSTEIN: But I think there are some interesting differences. For example, we now have relationships with teaching institutions, Wheelock and Simmons, and we have student teachers who provide service to us. We provide some in-service training to our staff as a result and we don't have to pay for the 10 to 12 student teachers who are available to the center as an in-kind service

We were paying $11,000 for a social worker. We now receive social work counseling from the institutions in Cambridge for free. Social workers are provided by the welfare department and by some of the counseling agencies.

MR. GRASSGREEN: Was this always available prior to your loss of funding?

MR. SONENSTEIN: Yes, but because it was paid for we didn't search it out.

MR. GRASSGREEN: The more dollars available the easier it is spent. The same thing is true whether you want to call it in-kind donations or donations from your own employees.

MR. PITTAWAY: Some government body is still paying that cost.

MR. SONENSTEIN: Yes, that is being paid as a service.

MR. GRASSGREEN: But that is still going on. It was going on before and it is going on now. It is like you have a scale and you can get a 100% of the work from that person for 50%.

MR. MILLER: How often would they need to hire an extra person?

MR. GRASSGREEN: We don't know. The odds are that that person can do more work.

MR. SONENSTEIN: When you increase the amount of day care supplied by a factor of 10 you can't just assume that you can continue to absorb available services. One center in Cambridge can do that and maybe two can.

MS. ROWE: There is another point. We are negotiating so that KLH will not have to pay $1000 a month in taxes to the city of Cambridge because it is a nonprofit service organization. Let's say we succeed and that $12,000 drops out of KLH's budget. Then Cambridge has $12,000 less. From the standpoint of the society, it is a redistribution of income and has nothing to do with efficiency, or at least the level of efficiency is not the primary change.

MR. GRASSGREEN: You are talking about reduction in dollars available to the city of Cambridge, and using that money in different ways. That is a different thing. I am talking about using the same personnel in more and different ways. What I am saying is we tend to spend more when we have more.

MR. RUOPP: We don't know about the elasticity of labor over time, so let's drop it. Dick doesn't have enough experience to know whether he can keep his people going continuously over a five-year period at the rate of energy they are putting out.

MR. GRASSGREEN: As our labor market dwindles and our labor expenses go up, so will the cost of our services. The cost of the labor market will rise just by bringing day care center employees under the federal minimum wage. Of course, as more and more people get involved in proprietary day care, the government will get involved more and more, and it is going to be a more competitive market. Therefore it will demand more income for staff members.

MR. SONENSTEIN: We decided as a matter of policy that we wanted to maintain our level of quality while tripling the size of the center. We hit on some indicators as a measure of the level of quality. We wanted to maintain or increase our staff-child ratio. As we expanded the center we maintained it through adding paid and unpaid staff. we wanted to maintain a relatively high compensation for our staff. We did that. We wanted to maintain the hours of service for the parent; we were open from 6:30 in the morning until 6:00 at night 52 weeks a year. We maintained that we we grew.

As we increased in size to 60 children, it appeared to be working. We had the physical space to add classrooms and enlarge our kitchen to handle the increased capacity. When we get near to having 75 children, we found severe operating problems. The executive director was not able to cope with an institution of that size. The fact that the large staff had to be scheduled around a 12-hour operating day, the fact that each staff member got a month's vacation and this had to be cycled in a 52-week operating year, created some enormous management problems in the utilization of resources.

MR. OGILVIE: I find that some of the things you just said were a little in conflict with what I saw at the KLH center. The director told me that the reason the costs were so high was that the center was fully staffed for 80 kids. I saw a lot of one-to-one situations throughout the day when I was there. There was an enormous ratio of staff to children, something like one and a half to one.

MR. SONENSTEIN: That was true two years ago because the demonstration project was to demonstrate that a center could provide day care to a specific industry.

MR. OGILVIE: I wasn't questioning why; it seemed in conflict with your account about gradually building up and maintaining quality, because you obviously haven't. The quality in terms of child-staff ratio has had to decline because you were fully staffed two years ago.

MR. SONENSTEIN: We were fully staffed two years ago to provide day care to what was then an estimated enrollment of 30 to 40 and an ultimate enrollment of 60.

MR. OGILVIE: The director told me she was staffed to handle 70 to 80 kids at that time, and that she could handle them without any additional staff.

The second point I want to make is I think it is interesting to note for the record that under this definition of in-kind contributions, Mary Rowe was right all along. She never did find a day care center that didn't have a large in-kind contribution.

MR. GRASSGREEN: Let me make a controversial statement. When you are dealing with that segment of society which has a very strong social conscience, such as social service agencies, and you give them a lot of money, their social conscience comes right to the fore. They do things -- such as pay staff sums of money -- that they think are equitable, rather than realistic in the marketplace. Proprietary agencies don't do this. They are realistic in the marketplace when it comes to salaries and other expenses.

MR. RUOPP: There are a lot of hidden costs in paying low wages. We don't know the real costs of turnover rates that tend to be associated with proprietary centers. From my experience in college administration, I learned the real costs connected with turnover, were absolutely staggering. Stability may be worth half the difference between high and low salaries.

MR. PITTAWAY: Dick, the point you are making is a valid one, but there is another side to it. We know from examining the job market in behavioral sciences that money is not the thing that primarily influences turnover in the marketplace.

MR. RUOPP: I am talking about two attitudes about money. There are proprietary centers that are paying less than he is paying his people. We don't have the same kinds of problems in one respect. The proprietary centers may not have any turnover rate at all because the dedication to that endeavor, even though it is terribly funded, and so on, and even though it would make a profit-maker very happy because he would figure out a way of taking some off the top. . . .

MR. PITTAWAY: We are back to the administration problem.

MR. RUOPP: We prepared two budgets for family day care in New York. The women are getting about 96 cents an hour. If you include that as an in-kind donation it inflates the budget by 30%, making $2200 per child rise to $2900 per child per year. Those women are an elastic supply; it is strictly a marketplace situation. Mary and David had a big fight with me about whether we should show the second budget because from an economist's point of view it is not appropriate to show costing of in-kind donation in elastic supplies. Mary was very adamant and so was I. Costing such in-kind donations is the same method that was used to support slavery and to support wages below the federal minimum level. The question of elasticity of supply of labor is one that this country is taking a stand on. We must at least show what the other picture looks like.

MR. GRASSGREEN: We have never lost a director.

MR. RUOPP: In how many years?

MR. GRASSGREEN: Two years.

MR. RUOPP: You haven't reached the half-life yet. You don't know. Until you have turnover of directors you don't know what the real costs are going to be.

MR. GRASSGREEN: I think turnover in the earlier stages is greater than it is after a director has been with you for a substantial period of time. The only real turnover we have is if the director is married and her husband moves.

MR. SONENSTEIN: I think the quality question you have to consider when you talk about expanding by a factor of ten the amount of day care provided is, Can you continue to attract people who are willing to work with young children eleven months a year, eight hours a day, and do it at salaries that are well below the poverty level?

MR. GRASSGREEN: I don't disagree that eventually the salary levels will increase. I think what Al was saying is this: the proprietor will pay in the marketplace. Nonprofit organizations say they want to bring salary levels up quickly, so they pay more and spend hundreds of thousands of dollars before that level is achieved in the marketplace. So they are taking actually the same quality person, supposedly, paying her more when they could get her at a lesser rate, and taking those dollars away from other needed services.

MR. RUOPP: KLH is a rare bird in that it is well funded. Most industry-related centers, except those that have federal dollars, are marketplace oriented because that is all they can afford. They try to minimize losses rather than optimize profits. The only way they can do that is in the marketplace, since most of our centers are below poverty level in their salaries.

MR. FEIN: There is a growing amount of evidence that the way the adults interact with the kids is pretty crucial, as is the continuity of that care. That makes us look at the compensation, financial or otherwise. So the issue is more complicated than paying as little as you can get away with in the marketplace. From the point of view of the kids you have to consider how the staff feels about working under awful conditions many times. As I hear some of this discussion, it seems to me that more of you should work with kids in the day care situation before talking about reducing compensation.

MR. GRASSGREEN: You are missing one point. I think maybe I didn't express myself properly. I presupposed that the person we are employing has the basic ingredient to make the child and parents happy. I am assuming the quality is the same. I would never advocate -- and we don't advocate in all our centers -- that we hire less quality to save the dollar. What we do say is that many times the proprietor can get the same at less cost. We advocate hiring what we need in relationship to quality and paying the going rate. Then we provide that person with an incentive to work harder to produce better. If you give it to him at the beginning, he loses incentive and you lose that which you want to develop in that teacher in relationship to the children.

MR. FEIN: Hiring somebody who meets those basic qualities is necessary but not sufficient. You then have to look at the working conditions -- what day-to-day situations are -- to see if that person can continue to deliver that quality of care to the kid. That also goes back to quality. What is the quality? I am assuming that you have to presuppose the quality.

MR. RUOPP: Another thing we don't know is the elasticity of different kinds of children in our society. In Dick's market, I would suspect, the children are much more tractable, for example, than if you are dealing in the inner city with a mixed group of chicanos and blacks and some who reflect the frustrations of the society from which they come. We know nothing about the monetary costs of dealing with different groups of children at this point.

MR. GRASSGREEN: This may be true.

MR. PITTAWAY: I would like to bring up another point. A basic problem that the public agencies have to face when they start negotiating for day care is, What are you going to allow as a reimbursible cost for a corporation? That is, the public agency must have in mind some concept of the basic quality and quantity they are willing to pay for.

This gets back to the problem that Mary was talking about yesterday. We just don't know very much yet about the factors that cause good quality and what the quality-quantity trade-offs are. The public body has to come to some conclusion about that and they don't have very much information to go on. This is a whole area of policy decision-making that the federal people here ought to be thinking about very seriously.

MR. McCLELLAN: I think we still have to discuss what are useful preschool services. Are social services available at all? Do they achieve the intended results? I think that is associated with the problem that Dick raises. It may well be that in some programs we are adding services that may or may not be useful.

MR. SONENSTEIN: That depends on the kind of children enrolled in the center and the kind of staff you have hired.

MR. PITTAWAY: As Mary mentioned yesterday, each parent group has its own concept of what it wants for its children. This also has to be brought into negotiations when you establish the course that you are going to allow a particular center to have.

MR. RUOPP: That is one of the serious lacks in research.

MR. PITTAWAY: That is why there is no general answer to the question you ask about useful services. They vary for almost every day care center you are talking about.

MR. OGILVIE: You answered my question right there.

MR. GRASSGREEN: The truth is if you know exactly what segment you are going after, then you can calculate your costs for that situation.

MS. ROWE: What Al has said is that each center has its own values.

It seems to me inescapable that the government system set up to deal with day care must have the image of enormous diversity. They must support what other people will create for themselves, rather than pay for some set service. We don't know what the service is or how it can be provided at the least cost. We don't know that if you help people they will set up day care services. We do know that we can limit child abuse if we set our minds to it. Above child abuse we don't really know anything about quality. We can't distinguish between custodial and developmental care, even in terms of cost, much less quality.

MR. SONENSTEIN: I want to cover briefly this question of economies of scale. We found that in moving from 60 to 75 children there appeared to be on paper an enormous increase in contributions to the center in terms of money available but no required to be paid for fixed costs.

We know very quickly the additional costs to us of going from 60 to 75 children did not appear to be anywhere near the additional revenue we would receive by going up to that number. We had anticipated an over-enrollment of perhaps 10 children, but we found a couple of things. There were significant staff burdens related to over-enrollment that are not always considered. We found that even though we over-enrolled the staff members were still concerned about the total enrollment. They are responsible for a given number of children. The fact that you have enrolled 23 children in a classroom that has a capacity of 20 does not mean that the teachers are not concerned about 23 children or about why any particular child is not present on a given day.

We are now thinking of moving back down to 60 children. There appeared to be a threshold at approximately 60 children. Above that level, the demands placed upon the administrative capabilities of the center -- which were often considered fixed costs -- begin to deteriorate or to become variable. There is a strain on the facilities. Our maintenance costs increased significantly when we went above 60 children.

It is just a feeling, but we believe that there is some desirable size over which perhaps all sorts of things begin to occur. We are not sure where they are occurring specifically, but we know that the center is different at the current operating level than it was with 60 children.

MR. RUOPP: Did you add another lead teacher when you jumped from 60 to 75?

MR. SONENSTEIN: Yes.

MR. RUOPP: The difference may be in the director-staff relationship, rather than in the director-child relationship.

MR. SONENSTEIN: There is a real problem of parent participation when somone else is paying the bill for day care. We have a tremendous problem involving parents in the program when they are paying a fraction or none of the cost of day care. On the other hand, when day care is provided in the area where parents' work, they have no community affiliation with the center. We think, third, parent participation falls off when the center approaches a size that makes it a somewhat institutional arrangement, as opposed to a smaller and perhaps more intimate setting. When parents are faced with the larger staff, the greater number of children, the limitations that a large size presents in terms of image, parent participation declines.

We think that because our parent participation has fallen off considerably, our operating problems have risen and we don't have the input of the parents to provide a source of support that we had previously.

MS. ROWE: You have raised one thing in my mind that I am ashamed to say I have never thought about before. To my knowledge there is no demand survey in the United States anywhere which has investigated the size of institutions parents would like to see their kids in. Asking parents about this suffers from all the old problems of their not having knowledge about it. But in that same way we ask, "How important is being close to home in relation to a trade-off with money?" It is a critical demand-serving question that we should have been asking. There are a lot of data on it in the Soviet Union and Scandinavia, if only we could get our hands on it. I have heard, for instance, a Brooklyn woman say that she has done a survey of parents in the Boston area by systematically asking everybody she knows about the size of institutions they prefer. In all my own consulting, I found people want small centers, although I am willing to concede that is a selective sample. I find that the parents and staff that I know really feel that small centers are a great advantage.

Let me ask you one more thing. Did you maintain your administrator-child ratio? I don't mean director.

MR. SONENSTEIN: Not at all.

MS. ROWE: Our single most powerful indicator of warmth was not the teacher-child ratio, but the administrator-child ratio. Even if you maintain that ratio, there is some indication that large centers are less warm than small ones.

MR. SONENSTEIN: Again, on this parent participation subject, I think you should remember that KLH Child Development Center is owned by the parents. The parents make up the corporation that owns the center. They are the corporate body. The board is 50% parent represented. Yet the shifting in size appears to have created an organization whose size appears to be a problem.

MS. JONES: Did the parents vote to make the center larger rather than give it up altogether?

MR. SONENSTEIN: Yes, although perhaps not the same parents.

MS. JONES: I think that is very important. How much do the 50% who are parents really manage? Are they in the center? It would be great to have parents of other children working in the center.

MR. PROSSER: Under the present system are parents paying some or all of the cost?

MR. SONENSTEIN: It varies.

MR. PROSSER: I got the message that in-kind contributions go down if somebody else is paying for the care, and I also assumed that previously the government was paying for everything. Then I also thought I heard you say that in-kind contributions and parent participation went down when the government got out of the act. I hear a conflict in that.

MR. SONENSTEIN: Under the HEW grant, parents were paying on a sliding scale, but it was a token amount. It turned out to be perhaps $5 per child per week. For our current purchasers of service, there are also sliding scales. MIT pays us $40 per child per week. The parent pays MIT based in a sliding scale, generally averaging about $10 per child per week. Our welfare contract provides for excellent reimbursement through the WIN program. The parent does not pay anything. We also have about 15 community purchasers who pay the full cost of care, $40 per child per week, directly to us.

MR. PITTAWAY: I would like to raise another question. What do we know about workload standards for various kinds of special services which go into child care operations? What is a reasonable child load, so to speak, for the social service worker? What is a reasonable load for the nurse, the cook, the administrator, and what-have-you?

MR. RUOPP: We have some data on that in our study to indicate that a nurse, for example, if she is not doing any classroom activities, can handle about 60 kids on a half-time basis and do a fair job -- that is, a good nurse with a lot of energy, who has a lot of community resources available to her.

The problem is that you get into some unique factors about how many resources the person brings with him to the center. Our model size was 60 children. I have a feeling that four classrooms, which is about 60 kids, is a breaking point for what an individual director could deal with.

If you add the fifth classroom, it may be more important than adding three new staff members. That is an issue I would like to look at. In a center in Salt Lake City they had a parent as a full-time social services coordinator, a very critical role. They did not have any fulltime social service people except the parent coordinator who organized all the social services needed in that center through the university and through various kinds of clinics, such as speech and hearing clinics. She and the nurse organized the programs together. Those two roles were critical. There was an administrative assistant in that center who was extremely good at getting other kinds of services from the state and county, so there was a group of administrators who seemed to be able to do the entire work in a 60-child center that had three full-time and one half-time persons. The nurse was the only paid person. That center had more training and development curricula than any of the other centers we had looked at.

MR. GRASSGREEN: Define for me in a general way what the directors do. Does the director of a center handle the accounting or the bookkeeping or what?

MR. RUOPP: One thing we did for our own use was to carefully assess the director's tasks on the basis that Keith suggested. It was not a time and motion study. In each case study for each different center you will find, if you are interested in these kinds of things for your own comparative purposes, a pie that shows the distribution of the director's time based on his own best estimate.

In most centers the director spends very little time in business activities. Either a volunteer or a Head Start bookkeeper takes care of it. I think we find out a lot of what the director does with her time. If I had to choose an indicator to look at, it would be how the director says she uses her time. This gives some measure of what is going on transactionally between the center and the community. If you find a large portion of time is spent working with volunteers, you know that it is very likely that the in-kind portion of the budget is going to be high. I think if it exceeds 30% you know that there is a problem -- that the director has insufficient funds and therefore really has to get those volunteers.

We asked, "How do you spend your time -- with individuals? On the telephone? Doing paper work? With groups?" There is an incredible spread, that is, a distribution between inside and outside activities, that I think tells us a great deal about each center.

MR. GRASSGREEN: Were the directors teaching?

MR. RUOPP: In almost every center they had some direct contact with kids. I think in our study, over 10% of the director's time was spent in teaching functions. We attributed a percentage of the time to teaching.

MR. SONENSTEIN: I would guess if you judged a way a proprietary director spends her time in comparison with directors of nonprofit centers, you would find a startling difference. I found that our director was spending up to one day a week giving tours of the center. I think that was partially because of the publicity. Perhaps another day a week on the average was spent attending conferences, consulting with various groups within the community, and this sort of thing. I would wager that in a proprietary center the time distribution for directors is very much different.

INTERNATIONAL AND COOPERATIVE DAY CARE PROGRAMS

Cynthia Jones, PARENTS' COOPERATIVES PRESCHOOLS INTERNATIONAL

Parent Cooperative Preschools International (PCPI) represents 3000 teachers and 45,000 children that are in cooperative nursery and day school programs.

I have been serving as first vice president, working on the organization's legislative and grants work and overseeing the publication of the PCPI Journal. One of the things that I do is coordinate an international forum on child care legislation, which is reported on the legislative page in the Journal.

Other countries have worked on some of the problems we have been discussing and have come up with some intermediary solutions that you might want to consider.

In Canada day care is provided differently in different provinces through provincial grants. In Ontario a very excellent system is used with a large office of inspectors who serve also as resource persons for the many day nurseries funded this way. A set of high standards insures the quality of 200-300 nurseries in this one province.

For information about this and other aspects of Ontario's system, write Mrs. Jean Stevenson, 850 Whitney Drive, Mississauga, Ontario, Canada. She is a day nursery inspector and also past president of PCPI.

England has very good grants for child care. One type of grant is for voluntary programs. The British Play Groups Association represents programs which are similar to the cooperative programs in this country. Some parents participate in the centers and some do not. Grants to that association fall under the country's Urban Programme, which I think is their umbrella name for their social services.

The Department of Education joins in supervising Britain's programs. Grants can be small, one-time-only grants for the purchase of one or two pieces of equipment; larger amounts for equipment for a building; or they can be recurring payments or annual grants for up to five years. Tuition can be subsidized through some grants, but generally families do this themselves for two days to five days a week.

The main criterion the British Play Groups Association uses is that the center applying must fill a special social need, such as programs for low-income children, handicapped children, starting a child center where none exists, or increasing the number of places in an existing area. In England the person to write to for information about the British Play Groups Association and the Urban Program would be Mrs. Jean Booth, 31 Wiltshire Boulevard, Hornchurch, Essex, England.

Yesterday when I testified at the Maryland hearings to raise basic health regulations for day care, many of the individual proprietary owners expressed concern about better kitchen equipment being required. A $1000 or $2000 equipment grant to them might increase the usability of their facility, for instance. But as one of them said, he did not want a subsidy.

I think there are a number of unused spaces in existing facilities.

I know for a fact cooperatives could take many more children. Within a year the United States could place 1000 to 2000 children in existing facilities if scholarship subsidies were made available. In England, New Zealand, and Canada, the federal governments have been subsidizing, and the care available is much better and more widespread across income groups than in the U.S.

Many cooperatives do have scholarship children in the United States as they have held fund-raisings to pay the place of one child. This is not a very satisfactory arrangement. The parents of such children do not enjoy being unique in the school.

I think New Zealand has the program most relevant to this group's discussion. Centers there are willing and able to work with the Maori Indian mothers, who are just as illiterate as any population in this country. New Zealand has had successful programs for these people. The New Zealand Play Centers are partially government funded. The children are brought into the center and the mother may participate. She is paid and there are various levels at which she may work. She takes a certain amount of training and then becomes a center aide, for which the pay is very low. Then after a certain time she moves up to the next level, and so on. Eventually she can take courses and can move to a fairly high level. But the whole program in New Zealand is based on training the mothers along with the children and paying them as they reach certain levels.

We find in the work we have done in our country with low-income mothers, that there are many who are pregnant and have a baby and a two-year-old and a three-year-old; some of them have come to us to ask for help in starting a cooperative nursery. They really need cooperative babysitting, but they do not trust each other for this. They're afraid the other mother might hit their child too hard, or something like that. These mothers also want some child development advice. Some have asked me, "Is it OK to hit him so hard?"

In New Zealand they have a good way of working with this situation. Information can be obtained from Mrs. Beverley Morris, the New Zealand Play Center Association, P.O. Box 141, 721 Pan Mure, Aukland, New Zealand. The association just put out their latest magazine which lists all their regulations.

In this country we have lots of facilities that close at noon and then all afternoon they sit empty. We could extend these from part-day facilities to full-day ones. They could be used for child care if you put in cots for two-, three-, and four-year olds. There are lots of poor mothers who are home with their children because they want to be home with their children, and they could come in and help staff such centers as paraprofessionals or participating mothers while their children attended.

When the mothers are there, some of the children get more loving than when there is a greatly increased staff-child ratio but no mothers. I was fascinated with the administrator-staff ratio relating to the center's warmth. We find in the public schools, that if you water the teachers, they will bloom. If the principal needs watering and he cannot pass it on to the teachers, the whole climate begins to deteriorate. Everybody resents his working conditions and the children get nothing.

Cooperative day care is something we in PCPI have long been interested in. We know the children are there, we know the parents are. One problem is that whenever you have a low-income cooperative you do need a paid manager. In this country especially, cooperatives have parent boards that carry out many of the administrators' duties. I was interested in your pay chart because a lot of these tasks are better done by parents. For example, a parent should show visitors through the center, because the parent is usually proud of it.

Other countries show better liaison with their universities than we have in this country. One exception to this can be seen in PCPI in Montgomery County, Maryland, which has 43 nurseries. Half of them have 30 children and the other half have 45 to 120 children. We have two parents per classroom and a highly paid teacher with a bachelor's degree. We have an arrangement with Maryland University's Department of Behavioral Sciences. Their advanced-degree candidates visit our schools and provide a psychologist to visit the schools and systems. The students come back 12 or 15 times, although they are required to come only three times, because they get interested in the individual child. Some of the teachers love it, and the ones who don't feel comfortable visit fewer times.

Parent Cooperative Preschools International helps to organize new schools. There are 28 councils, and this is one of the things we (PCPI and the councils together) do frequently. We have manuals and booklets on how to organize and administer schools. The California council has a very thick book, *Pointers for Participating Parents*, that has everything, including how to win friends and influence legislators. They run workshops for parents. This is one of the things I would think was needed in KLH when it went from funded to unfunded status. You needed to have your parents know a little bit more about administrating. I wondered whether some of the parents helped the treasurer or whether some helped with membership recruiting, for example.

Parents should know about equipment purchase, for instance, what the cheapest place is to buy paint this year, and so on. The main offices in a cooperative are treasurer, president, membership chairman, health chairman. Many of these jobs are tasks that a director does, some can be broken up to overlap the director, and some are better done by people working at the center. In any case, workshops, newsletters, exchange of information, and services are needed.

We find there is a tremendous need in parent education for regional conferences. Very few groups are offering workshops for the improvement of child care. We started offering one for our parents and teachers and people came from all over

You are worried about losing volunteers. I am representing 90,000 volunteers and parents right now. It can be done.

* * *

MS. BELL: Head Start is certainly offering workshops.

MS. JONES: Lots of proprietary day care people would be glad to attend. This type of training makes working with children easier and goes a long way toward making a better quality program. If you are going to have people that are not trained, that do not know that you can do 50 things with blocks instead of just one, the program suffers.

I think this problem of losing your parent participation could be alleviated by having parents meaningfully involved. I think this problem of how to pay for total program has been handled in other countries by having more of an economic mix. They find the key is to have the parents really in there, not sitting home worrying about whether Johnny is being taught to be a middle-class white.

MR. SONENSTEIN: But at KLH the mother is working in a factory for eight hours a day.

MS. JONES: The Santa Monica Unified School System in California requires the parents to come in for a full day, the day before their child enters, to get a real feel of what that child does and how it feels to be there for 10 hours. We would call that orientation.

Then we have monthly parent education meetings which I think are very important - but the key to success with these is to hold them in the parents' homes with a program the parents plan.

MS. BELL: What percentage of your parents and children would you say are welfare recipients?

MS. JONES: In Canada, I do not think they call it welfare, but we have many low-income children in our programs. In New Zealand and England and in Hong Kong some families are very poor and many mothers work.

MS. BELL: There really are not any centers that are premised on services for welfare recipients at this time?

MS. JONES: I do not have those figures. There are some but not as many as would be possible with grant money more available. I am in the middle of starting a center with welfare children, so I know it can be done. This program is funded by a local city grant. It can be done if needed and it works if the parents are involved, but I do not know whether the Head Start type of system can be applied.

I think one of the things mentioned in KLH -- the person who was paid $15,000 who stayed on for $11,000 -- is something we find very often. If you pay for something in the beginning the job can be defined and broken up and assured that it will work and then it is possible to continue. If they had never paid that person in the beginning they might not have it now. The seed money aspect is important.

We find in our nonprofit centers where the parents do not help, that things may start well, but they tend to slide. The second director is not as well qualified as the first. The third director does not even know why they should include certain things. Meanwhile, the parents hang around the door and wonder what Johnny is going to do that morning.

MR. PITTAWAY: When you get the second director, the whole program changes?

MR. GRASSGREEN: Where we have changed directors, it has been within few schools, not overall. When we have changed a director in one school, we also have often had to change the second director. When we have had the problem at the beginning it tends to continue, maybe because of the area where the school is located. We have not solved the problem.

MR. RUOPP: Parent attachment patterns to directors is also something we do not know about.

MS. JONES: Our whole type of program is planned for changes. The area councils run many helpful workshops, the parents are loyal to the school, and the director is not overburdened or underpaid. She is given as much help as the parents can muster. In a low-income center you would need a paid parent coordinator or someone to help get parents to participate. The continuing education of the parents is the balance wheel to our programs.

Parents should be in on the hiring of the director. Also, they should vote on the program. They should discuss what the children want, what the parents want, and what the teachers want.

You were saying when it is all paid for by somebody else, parents lose interest. Some mothers who work can arrange their working schedule to allow two hours a week, 7:00 to 9:00 a.m., say, or 4:00 to 6:00 p.m. There are less desirable working hours in a day care center during which the parents can help. Have parents pay less if they can help in some way. If they can arrange to come in and participate, that can be in lieu of the required financial donation. What you can say for parent participation is that it does work, the parents do learn, and if the good learning from school are carried home. In this way the child's total environment can be improved. Very few programs can promise that.

MASSACHUSETTS

EARLY EDUCATION PROJECT

Robert Fein, MASSACHUSETTS EARLY EDUCATION PROJECT, HARVARD UNIVERSITY

To the discussions held this morning I want to add a somewhat different perspective -- a view derived from working on a project concerned with statewide planning to meet both existing needs and growing demands for child care.

The Massachusetts Early Education Project (MEEP) was funded in May 1970 by the Advisory Council on Education, a research body established by the legislature to look at significant educational questions. A group of us at Harvard University were given a mandate to develop a state plan for state government's response to the growing need for child care and early education. There were several reasons why many people wanted a close look at the present and potential role of the state in early education and child care. In Massachusetts there are 61 federal programs now contributing financially to early childhood programs. There are 13 different state agencies that attempt to provide service to young children and their families. There is much frustration in the state over fragmented and overlapping services. There is a great deal of duplication of effort. There is also an increasingly perceived need for programs for young children in Massachusetts.

As part of the project we conducted a survey of a random sample of 500 families with children 0-6 from all income and ethnic groups in Massachusetts. We interviewed them at home in the evening with mothers and fathers present. Almost all parents showed a deep concern and interest in their young children. Fifty-one percent of all parents agreed with the statement that the government should change its priorities, putting families and children above everything else.

In the Massachusetts Early Education Project (MEEP) we made five assumptions: 1) It is a public responsibility to guarantee parental options for raising children, which include local control of child care. 2) There is a public responsibility to guarantee that the minimum needs of children for food, shelter, safety, and care be met. 3) There should be a diversity of service. As we look at the child development literature, as we look at other countries and cultures and their views of children and child-rearing practices, we realize that there is no one "right" way of raising kids. In Massachusetts there are currently many different ways of raising kids -- many ideas about where they should be cared for and about who should care for them -- and the present diversity of attitude and practice should be encouraged as governmental policy. 4) There are not going to be large numbers of state funds for early childhood programs in the foreseeable years to come. Massachusetts is tightly strapped financially, as are most states, and it is not likely that large amounts of state money will be freed to go into early childhood programs. 5) There is going to be a substantial increase in federal money coming into the child care early education field.

Given these assumptions we have looked at what are possible and desirable options for the state government to aid in the delivery of early childhood services. We see at least four options that state governments have:

1) The protective role. This mainly concerns state licensing and monitoring. This can be either preventive -- making sure kids don't get hurt -- or promotional -- making sure that kids get certain things (such as certain kinds of educational activities). The protective option is relatively

inexpensive, but it is minimally effective, and the promotional role may be professionally dangerous, too limiting of innovative child care, too standardized.

2) The coordinating-protective role. The state would assume the licensing role and make an effort to coordinate the multitude of programs and responsibilities for child care services. Under this option, the state would try to coordinate the 61 programs and 13 agencies. This, too, is relatively inexpensive, but it also seems to be relatively ineffective in providing service that people need and want. Governmental coordination of service is extremely difficult to achieve.

3) The facilitative role. The state could license, plan coordinate, provide technical assistance and information to local groups interested in developing their own child care arrangements, support training for the staff of early education and child care programs, and distribute some development, innovation, evaluation funds. The facilitative role is not very expensive and might help parents.

4) The funding/operational role. State government would fund and/or operate child care services. This role is prohibitively expensive. Further, we believe the state government should not be in the business of operating day care programs.

We are recommending in Massachusetts that state government should take a facilitative role in terms of early childhood education and child care. We do this for both practical and philosophical reasons. It is, we think, the best way to maximize both diversity and local parental control. It is pragmatic since state government will not have much financial control over where childhood money goes unless the state provides it. And it is unlikely that the state can provide much money.

In the facilitative role for state government we see five main functions for the state.

1) The state should provide information, people, and other resources to parents and local groups who want to set up their own kind of child care. If a parent group wants advice about how to get funded to set up a day care center, the state government would have the responsibility of having someone who can help them write an application. If parent groups want to know what child development people know about little kids, it would be the state's responsibility to collect, disseminate, and distill the wealth if knowledge we are accruing about child development. Information and assistance should be provided on a local basis where ever possible, and if not locally, then regionally.

2) The state should pay for education for child care. In our survey of child care practices, we found that in Massachusetts, half of all children age zero to six years, excluding those in first grade, are regularly cared for during some hours of the day by some one other than their parents. There are many people other than the child's parents who are providing direct child care. We see it as a proper state function to contribute in various ways (often by contract to state, teacher, and community colleges) to staff preservice and inservice training and to parent education.

   We can imagine the state of Massachusetts contracting with colleges and other institutions to train people to work in day care centers. We can see the government providing opportunities for parents to obtain their own education, such as by giving money to a parent group to hire its own child care education teacher. We can see parent information booths in or near supermarkets so when parents go out shopping they can also pick up the latest information on child care, if they want it.

3) The state should license child care programs. We see licensing now as a minimal protective function. Licensing should be expanded so the state can guarantee by licensing that kids don't get hurt. The aim of licensing is to assure that the basic physical and psychic needs of children for loving care are met. A goal of the licensing process should be to encourage and sustain the current diversity of types of program and care.

4) The state should plan and coordinate. The state should try to coordinate the existing network of services, even though it's very difficult to do. If duplication can be avoided and a more unified approach to service delivery adopted, children and parents will be better served.

5) The state should support research, development, innovation, and evaluation. Pitifully little is known now about evaluation of child care programs. If a parent asks, "How do I know whether this program is meeting my child's needs?" he has little to go on other than his personal "gut" sense. The state's role should encourage research about young children -- what they need. The state should encourage the people who have special ideas about children's programs that they want to try, by giving some money for innovation.

Those are five possible functions of state government, as we see them. There are several ways to implement these functions. One suggestion is the 4-C approach: create a governor's council, with representatives from state agencies, providers of child care, and parents who use child care. Set up the councils, and give them money to carry out the technical assistance and education functions. The state committee would be responsible for overall coordination and planning of funds and services for child care.

Another possible way is to create a new state agency, a department or office for children or child care or child development, with the main functions being carried out at the regional and, better yet, local levels. Functions at the regional level would be program development and assistance. If a woman in Worcester has a question, she can call up her local office and find out what she want to know about child care. Or, if a program in Holyoke is opening and wants children, there would be an office there that will have the names of parents who are interested in finding programs for their children. If someone wants to teach in a child care center, there would be a place nearby with a listing of current openings. If a parent group needs $10,000 for start-up money, they would be able to go to a local office and get that with a minimum of bureaucratic red tape. These would be some of the regional functions.

Another regional function would be to provide child care education, to distribute funds in each of the eight regions in Massachusetts for training of staff and child care education of parents. Licensing would be primarily a regional function with parents having a major say in the determination of the licensing regulations.

Centralized functions would be planning and coordination, perhaps some large-scale contracting for child care education, and collecting information, which would probably be disseminated on a local basis. Research and development would be split between the regional and central offices. It seems to us at MEEP that for providing service that will help people with their child care/early education questions and problems, the second approach will be more effective and more efficient.

Questions about the flow and amount of federal funds for child care are critical to any substantial new efforts to meet parents' and children's needs. And the federal picture is indeed unclear. Child care/early education in the Congress and administration is by no means yet a "guns" or "butter" issue.

It is possible that the Title IV-A funding will keep going as it is. It is also possible that there will be significant federal money coming if the Brademas/Mondale bill passes. Through this bill, prime sponsors of a yet-undetermined size can petition to be recognized by the secretary of HEW and then receive on a formula grant basis federal money.

The size of those prime sponsors units is quite important. There is some indication that the federal government now wants a large size, about 500,000. When you look at the question of state control over these funds, size becomes important. In Massachusetts, 500,000, or say, 100,000, means the difference between seven different units with their own financial base relating directly to the federal government, and two or three prime sponsors.

I want to make one other point and it is about the distinction between family home care and group care. If we look at the way kids are cared for right now in Massachusetts, probably 80-90% of all daylight hours of care for children are in home situations. In Massachusetts only 20% of the children in a preschool care or education program are there more than 20 hours a week. When we asked parents what they would like, 39% of mothers said, "I would like to take care of my child at home by myself." Another 39% said, "I would like my children taken care of in a home, either my home with somebody else coming in or someone else's home." And many of the 19% who said, "I want some care in a center" would use only part-time center care.

I suggest that we look seriously at the family day care systems. The notion of combining family day care with centers in a satellite fashion is an exciting idea that should be thoroughly explored. Why not give parents the option of care in a center for several hours a day can care in a home. Center-care home-care systems would be able to meet special child and parent needs, provide training and education, perhaps becoming the basis for communities to come together around child-rearing concerns and issues. We should look at family day care systems such as New York City which is providing ways for mothers who want to get out of the home and get an education and work as well as for mothers who want to take care of kids in their own homes. Center-care home-care systems also may in the long run provide more and better service for less cost than other kinds of child care arrangements.

MR. OGILVIE: What would you say are the arguments for having the state government involved in controlling the child care money at all?

MR. FEIN: The arguments made in Massachusetts are that if you really want to coordinate existing services in the state, you should have control high up - probably in a policy council at the governor's level. That will give the needed clout in talking to the state departments of public health, education and public welfare to make them plan together and coordinate their services. That is the argument that is made.

Whether in fact that would happen is arguable. Our feeling is that it won't; what it does is build another level of centralization and throw in more red tape! We are acutely aware that something like 60% of the costs for War on Poverty were administrative. We don't want that to continue to happen in child care. We are even skeptical of the amount of money spent by government in "studies" most of which finally gather dust. How much money finally gets into services that meet peoples needs and how much goes into studies that contribute to administrative costs?

MR. OGILVIE: Why don't you recommend that any level of government be authorized for this role?

MR. FEIN: I think it is possible to get coordination on some local and regional basis to develop area plans and local plans. I also think there are cases to be made on both sides. There is probably a size that is too small to really get any coordination. There may be a threshold of maximum coordination (minimum as the effect of that coordination may turn out to be).

For example, in Massachusetts I think about 50% of the population is concentrated in Boston and the surrounding area. Then the rest of the state is spread out. There are people in Massachusetts who live in very different kinds of ways. In the western part of the state there are rural areas, in the southeast there is industry. Boston is urbanized; scattered across the state are many small towns. Each area may have different needs for child care.

What is your view of it?

MR. OGILVIE: It seems to me you argue for having as small a level as you can possibly get as opposed to a more centralized system.

I have no strong personal feelings one way or the other. I was curious about why you recommended state controlled funds as opposed to local control.

MR. FEIN: Please don't think I am for state controlled funds. Many people in state government believe very strongly in state control of federal child care funds, but that is not my inclination.

MR. OGLIVIE: I am not surprised.

MR. FEIN: If we take a look at the history of government funding in the last 20 years or so there are cycles and it looks to me like we are moving into a cycle now of direct federal and local funding again. Each cycle works and doesn't work in some ways and then you go back and try it again. Let's try the federal to local funding again and see if that can actually provide service. Or maybe better yet, let's try federal to parents funding, perhaps through vendor payment or vouchers. Please don't discount the Hawthorne effect as it may relate to delivery systems for child care.

MR. MARQUARDT: Just look at the history of the Brademas bill. Originally the authors of the bill started at the state level. Then they thought, in Southern states particularly, they would have to go to smaller levels.

MR. FEIN: In our talking about cost, we should keep in our minds the question, How this is going to translate into terms of people working with little kids? The most important people working with kids are parents - how will our child care programs affect them? Our talk about costs should stay connected with the delivery service issues: how to aid parents in providing the child care that best meets their family needs.

GENERAL DISCUSSION

DR. HEDRICK: In our original program we suggested a number of issues for discussion, but left time for talking about issues which emerged from the discussion and from the various papers themselves.

It seems to me that particularly this morning -- and I think yesterday to some extent -- there emerged a general feeling that we needed to talk about the future situation of day care costs. In other words, most of our discussions of costs has revolved around past cost studies and what costs are now.

We agree almost across the board that if any one of the pending pieces of major legislation passes -- or even if they don't, but if the present trend toward government and private and state and local interests in day care continues -- that there is likely to be a major overhaul in the whole system of delivery of day care and also consequently in costs. Looking ahead, then, we have to be concerned with the delivery systems themselves and then, consequently, with the costs that are implied by these systems.

Day care policy means we have to produce something of value to those who are making those policies. I think the value comes by drawing implications from what has been said about what is being done and from what has come out of previous cost studies that relate to future policy. Beyond that, making suggestions on day care policy means taking a mammoth leap, and looking at delivery systems which are not yet operating. One example of this has just been mentioned -- the satellite family system with the central administrative core.

FEDERAL - STATE - LOCAL RESPONSIBILITY

The first issue I would like to bring up for discussion are the federal-state-local problems of implementing a program when it begins in Washington but is delivered locally. There seems to be a fair amount of feeling from a lot of different parties here that the program has to have some clout when it gets to the local level. We have to be sure the funds don't get absorbed at different levels through the bureaucracy so it becomes a nonentity at the local level.

There appears to be one very pragmatic problem with this which I will throw open for discussion. We are in a period now where we are busy considering legislation. If I were trying to run a program from Washington, I would come up with the easiest possible program, which is obviously the least complicated to administer, and one where I can show rather rapid implementation. However, our history the last few years has shown that rapidity doesn't somehow go down through the system. It takes a while to bring this about, to bring coordination and cooperation, and so forth.

Is that a problem or is it not?

MS. HUTCHINSON: We at the federal level figure it will probably take about two or three years to get a program accepted at the local level. We have to train people at the central office level to accept and use the idea, and then it goes to the regional level. In directly funded programs it may happen more quickly, but you don't have close accountability. So, it is a problem.

MR. CARLISLE: At the meeting we had over at OEO the week before last, Dr. Irving Lazar mentioned the fact that if we have a day care act and it is administered by bypassing state governors and state departments of education, the state governors could really wreck a program if they really don't want day care and don't like the program.

He also indicated that regardless of what type of delivery system an expanded day care program is going to have, there will be some necessity -- through training, through use of facilities, or what have you -- to deal with local school superintendents, and that if you haven't somehow included the state departments of education, you are not going to get cooperation from state school superintendents. He said that this had been the experience with a number of government programs which tended to bypass state governments.

What is the general feeling of the group in this regard?

MR. FEIN: One of the problems in the growing body of thought on day care is the transition to the schools. While kids do not remain in day care centers usually after age five, they keep growing and getting older and go on to other social institutions. Yet we made the choice in Massachusetts not to place the proposed department for children in the education department, though philosophically I like the notion of education from cradle to grave. If one looks at education departments in Massachusetts, and probably across the country, there are certain characteristics of rigidity that are probably present in other bureaucracies also, but to a lesser extent. For this reason, I would not suggest that we tie the growing early childhood education or day care field too closely to the education departments.

MR. JACKSON: We have talked about decentralization a lot. As you know, the primary delivery of our manpower program is the employment service. I find that I talk to a lot of people who don't want the responsibility. They don't want to be accountable for government funds in their community. They don't want people coming in telling them how to spend it, or they don't want to be responsible for that money.

I agree with Bob Fein: if those people on the regional level don't have any money to manipulate their planning, people will not listen to them. We have a situation like that in the Department of Labor. We can all get together and talk a good game but if we don't have any control over how the money will be spent nobody will listen to us. You can't just say you are going to have a regional planning committee and expect them to have any clout. You can't have clout without money.

MR. PITTAWAY: The biggest child care systems in the country are operated by school systems and they work very effectively, indeed. Is there anything bigger than the child care system operated in the state of California? There are 25,000 children in their day care program.

MS. ROWE: Obviously welfare departments would run a close second to California. There are welfare departments with comparable numbers of children under central administration.

MS. BELL: There have been changes constantly in Brademas' bill that indicate the body politic is going to vary from state to state as it is going to vary from section to section right here in Washington. There are going to be states that don't want to be bothered with this, but there are going to be other states that, while they are perfectly willing to pass control of the money down, want that money to come through them because that gives them added authority.

This is why it is very difficult to say that we are going to eliminate the state process or that day care should be administered by a council, with the state being eliminated as a potential council.

MS. ROWE: I agree it is rather "iffy." California is a wonderful example of a case where it is all right to have child care in the educational system, because the child care teachers there are paid $8000 to $12,000 a year. That is lovely. I have no gripes with that. What I mind is $4200 and the day care people are paid 60% of that. I don't want my kids in groups like that, especially if the staff-child ratio is six to one or ten to one.

Brademas specifically sets it up so that the program could be administered by the state, if everybody in California feels they want it to be the state and they want to maintain their staff-child ratios as they are. But clearly it is not an appropriate structure where governors don't have the interests of little kids as much at heart as they do some other things.

MR. OGILVIE: I would suggest that the most appropriate vehicle for delivering services depends on what services you want to deliver. It is not a very astute comment, but important, nevertheless.

If we could all agree -- and I doubt we all could -- that the objective is that all children will have comprehensive services, we might be able to agree on a more comprehensive publicly-oriented system. In that case the public school system might be a more appropriate vehicle.

On the other hand, if we were more interested in the welfare aspects of day care, as opposed to comprehensive child services, it is probably more effective to install a purchase-of-services kind of operation where the state and public systems don't get deeply involved. You can open and close operations rather quickly.

I think we could spend the rest of the afternoon developing which is the most appropriate vehicle for doing different things. Are we just talking about day care in general or are we talking about comprehensive services?

MR. CARLISLE: Don, there is a question I would like to ask you. Someone told me that you had some notion of a public competitive-type delivery system for day care. Do you?

MR. OGILVIE: I don't recall one like that. I will think about that, though.

MR. PITTAWAY: I think if you are talking about public bodies who are willing to administer a day care program, the education system is one that would be eager to do so. Any time you start talking about the welfare system, however, I say and let's buy it by contract.

MR. FEIN: Can I just give an example of the drawbacks in involving departments of education? I will use the specific example of Fall River, Massachusetts, which has the philosophy that first grade children must learn to sit still for six hours a day. They have a pre-primary program which has the philosophy that the best way to teach kids to sit still for six hours a day in first grade is to get them in there for three hours a day and teach them to sit still for three hours a day when they are four or five years old.

I would suggest that is a limited view of the possibility of children in school. Yet I don't think it is the atypical of kindergartens. There is not as much joy in the nation's kindergartens as you would like.

I don't mean to suggest that day care would fare much better in the public welfare departments. They might be worse than the education department at running kindergartens. But I would put this forth as an argument for much more local control, rather than control by an existing welfare bureaucracy or an education bureaucracy.

MR. PITTAWAY: The federal government should reserve for itself the power of final approval in how day care will be implemented in any state or local jurisdiction. This could be implemented by an investigative arm which would go out into the field and make its own value judgments about whether the method proposed is appropriate.

MR. OGILVIE: And if it is not?

MR. PITTAWAY: To disapprove the plan.

MR. OGILVIE: And not give anybody day care in this state?

VOICE: I think at that point you would have to give the alternative of coming in with a plan different from the state's.

MR. PITTAWAY: There could be a technical assistance arm also in this same agency that could provide a consulting service to help the local community work out a better service delivery system.

MR. OGILVIE: I think that is a good idea. In fact, if I read the legislation correctly, it is in there. The question is, Where you draw the line on what the government's role is going to be? That has been the real problem with all the federal delivery systems.

MS. BURCHELL: But as it stands now it is true frequently that federal agencies get state plans and pro forma approve them whether they really like them or not, to get the money out. As it stands now the federal government really has little control over the dollars they are spending on such programs. I have just been appalled at some state plans that have been approved.

MR. PITTAWAY: Let me make a second statement about what policy issue I think the federal government should consider. I think the federal government should start with the premise that there does not exist the capability at state and local levels to implement any day care delivery systems. So, it should be a matter of policy that the federal government will make available to those states and jurisdictions that need it, a method for planning how to implement day care services.

Going back to the point made about state plans, the state plans are not state plans; they are a restatement of federal regulations. They are not plans at all, but approval at the planning stage is the key point in time at which the federal government has the opportunity to exert power on the system.

The government should insist that there be plans, plans in a full sense of the word -- evaluations of alternatives and the complete seven-step methodology of the planning sequence being executed before implementation.

But even if this were done, there is still a potential problem. The federal government would have to have a monitoring system. The approval of that plan could only be contingent upon its implementation. Implementation is an ongoing process.

MS. HUTCHINSON: Technical assistance would be needed because we don't have the capability for monitoring at the federal level.

Technical assistance enables the federal government to implement a program perhaps more quickly than it could if it used its own facilities. But I see the goal of technical assistance as training people who are in the program to do the job themselves when technical assistance is removed. Then the technical assistance unit would be available on a standby basis. This plan would help implement the legislation faster than if we tried to do it completely in-house.

MS. BURCHELL: Are you saying that you would have the consulting people doing the monitoring?

MS. HUTCHINSON: No. Technical assistance is widely used by the Department of Labor in their training programs. The technical assistance people go in and help the local agencies. So far it hasn't been widely used in child care, but if we are going to implement a national program that is one alternative.

MR. PITTAWAY: On that point, all of the major federal manpower and OEO programs which have started out on a less than fully manned basis have grown into tremendous programs. Every one of these projects now spends large sums of money to hire technical assistance contractors to go in and work with local people on a day-to-day basis to help straighten out the problems. It is a lot easier and more cost-effective to get that work done before the fact than it is to try to go in and straighten out a bad situation after the fact.

DR. HEDRICK: I am also reminded of a lot of things that individual community action agencies were doing early in the OEO programs. In many cases, all sorts of duplicative and nonsensical activities occurred. For example, under the rubric of evaluation, there were efforts made to get some idea how to develop a plan after the agency got its funds. This sort of thing happened extensively.

MR. McCLELLAN: The whole discussion is centered on program solutions. I am not sure that there are program solutions. Maybe there are policy solutions. It seems to me that we are making decisions involving values, particularly for low-income families, because middle-income families can afford child care arrangements if they want them. It is only the low-income family that cannot afford to pay for a child care arrangement.

It may well be that lower income families will not choose to put their children in day care centers or day care homes if they had more money. It may well be that they would choose to spend a little more money on food or a little more money on entertainment. It may well be that if they do spend more money on entertainment, it would create a better family relationship because there would be more frequent and better interchanges between the adults and the children.

Just as the TVA program did not produce a solution to our conservation problems -- and in some respects over the course of the 30 years that followed it even created some problems in the environment -- I am fearful of certain policy decisions and all the institutionalized effects that go with it. Another example is public housing. I have done some studies of public housing that indicate that the real problem is not with the building design or the building height or with the density or the location, but it is with the organization and control. I would rather have physical abuse and chaos than to have an overly tight planning system too centrally controlled.

DR. HEDRICK: That is the reason I raised the question.

PARENT PARTICIPATION

MS. ROWE: I have been trying to see if I could draw a consensus among us about what the goals should be in delivering governmental funds for child care. I have a list. I do not mean that you all agree with this list.

One goal is to foster local creativity in the use of child care funds for child care programs of different types, presumably meeting the needs of the local group. Second, we want to provide bypasses, when necessary, to avoid allowing lousy local government to strangle or merely rubber-stamp funds that come through. The third goal is that we really would like to see as much of the money as possible used for child care rather than used to further proliferate employment for government persons.

It seems to me inescapable if you have all three of those goals that you put decision-making on the most local level that you can -- that is to say, with the parents. I am all for eliminating child abuse in any way that we can. I think that there are awful parents. I think there are a great many more parents who need parent education in the worst way, who have not the least idea of what their options are much less any idea of what is good for their kids. But I feel that the money should go, in as basic a manner as it can, from taxpayers to IRS back to parent.

We are talking about taking care of kids during most of their daylight hours -- 12 and 13 and 14 daylight hours, all around the year, maybe from age two weeks. I have no interest at all in seeing my federal government or my state government take control of my very young child.

I will except the case of Israel, about which I know little, but I have not been too keen on what governments have done elsewhere when they have made a plan for little kids. I have a degree in Soviet studies and I have been through Soviet child care centers. I like lots of things about the system, but I do not like the element of planning for young children. I would like to see our child care system decentralized, even if it means that black and white kids do not get together quickly in the South, even if it means some differentiation of income groups and racial groups that persists in the North.

I propose that we see what we can do to make sure the parents make the decision. We should vest the monitoring and evaluation function not in a superbody but in the parents, hoping that with plentiful options guaranteed by ease of entry and guaranteed by fostering diversity that parents will somehow learn to do better by their little kids than they have in the past.

MS. HUTCHINSON: I agree with everything that Mary said. There is the dilemma of taking what is ideal and yet making it workable. I worked setting up an OEO center and a state advisory committee, which included 50% consumers. We are talking about employed mothers having an active part in the day care program, but how do we make it possible when many of these mothers hold jobs that do not allow any time off or any sick leave? If you lose a day you lose your money.

This is the kind of dilemma I am thinking of. How do we solve it? Do we work with employees and make it a national policy that if your child is in a day care center you are required to have time off from employment? How can we expect participation from these mothers who are overworked at home, who are underpaid at the job, and who have no time off?

MS. ROWE: We should do our very best to draw in fathers as well. There are two parents for each child.

MR. WARNER: Sometimes.

MS. ROWE: There are various possibilities. One of the least mad ways of drawing in fathers, I think, might be to require that both mothers and fathers, or grandfathers, show evidence of having visited three child care programs before they deposit their child in one. You can set forward silly possibilities that at least get people visiting child care facilities.

Plainly we should have half-time work options for both men and women in this country guaranteed by federal legislation. There will be -- if I judge this new mad age group correctly that comes through our colleges -- a great many people who would prefer to have both him and her work half or three-quarters of the time out of the home and part-time in the home.

In any possible way we should involve fathers and not leave them out of our speculative thinking. The fact that I have not necessarily an idea on involving fathers which appeals to you should not mean that you won't come up with a better solution than I have given you.

Second, even if a parent cannot participate in a program in the first year, anything we can do to give parents choices of programs, it seems to me, is the first step in the door for gaining their allegiance. I think it is inescapable that we must ease entry provisions to guarantee diversity and decentralization since parents seem to place such a high option on having child care close to home, and that we do everything we can to foster different kinds of programs if they are set up by IV-A or state or local funds.

Finally, there is the matter of public education programs. We have not begun to tap the possibilities of using supermarkets , laundromats, and so on. There are some places that parents go to once a week.

If you go to them, you can get in touch with all parents in the United States weekly. We have never used advertising media. We have never used public education programs which involve model child care centers in great shopping centers. The possibilities are endless. In fact we have not very carefully considered women and their lives. If you want to consider child care you might first spend several hours reminding yourself of what women do, and then work within that pattern.

MR. FEIN: Let me add some data to back this up. In our study of parents with children ages zero to six years old, we asked them to agree or disagree with the statement that fathers should take more responsibility for child care. Most mothers -- 80% -- agreed with that statement and 80% of all fathers did. The second figure is the surprising figure to me. That suggests that we do not yet realize the potential of fathers' participation in child care.

We also asked parents what they would like to learn about child care. First, would they like to learn about their kids, and then what would they like to learn, and then where would they like to learn. We found they would very much like to learn.

We had interviewers going into homes. They would go into 18 homes in a row and parents would say, "Can you stay another half hour and talk about the kids?" Time and time again people wanted to talk about their kids: "What can you tell me about what I might do?"

The interviewers asked them what things they wanted to learn about. Many parents wanted to learn how to help their kids learn. Many parents wanted to learn how to help their kids grow up. Many wanted to learn about the problems of being a parent. Parenthetically, many parents wanted to learn about drug education and how to control teen-agers, as well as learn about little kids: 47% of all parents wanted to learn about drug education.

Where would they like to learn? In small neighborhood discussion groups. There is a high probability that if parent education programs were offered through community schools, parents would eagerly go. Many parents said they would really be interested in seeing television shows about child rearing, especially if they could have their relatives or their neighbors together to talk about it after.

So there are many ways of reaching parents that we have not begun to explore which would relate directly to the questions you are asking.

MR. PITTAWAY: Underscoring your point is the visiting teacher syndrome in the Model Cities program and how avidly those people grasped that concept.

MS. ROWE: Our notion of getting hold of parents is to pin something to a child going home. We have not begun to explore the possibilities of having community residents contact other community residents in their own homes, which is what parents over and over again say is necessary.

MS. LAWALL: Something that was mentioned by Cynthia Jones was that the parents in cooperatives in other countries are required to participate in some way. It might be an hour a day or less. Under FAP or any of the programs, you could have as a part of a woman's job or employment training program the requirement that she spend two hours a week at a day care center.

MS. ROWE: We are working with Harvard as well as with other employers in Massachusetts to provide paid-work time-off to work in cooperative child care centers approved by the employer. Interestingly enough, no one who has participated finds a drop in labor productivity for this two or three hours a week. Presumably in production lines it would cause havoc. I have not heard good solutions for that. But there is not any evidence that a 35-hour week produces less a week than a 38-hour week.

MR. OGILVIE: That is your in-kind contribution.

MR. PITTAWAY: Don't overlook the fact that child care is one of the biggest posssible markets for labor that there is in this country. For every AFDC mother that you put to work you could put another mother to work in child care.

MR. McCLELLAN: I really wonder if parents will attend or actively participate over a long period of time in the kinds of activities that have been outlined. Research done on the labor unions indicated that it just did not pay workers to participate in the activities of labor unions unless there was terrible abuse going on. Consequently they did not participate. There was a very logical explanation why they did not participate. I just do not think you can get and maintain large-scale participation in activities, including preschool and day care activities.

MR. PITTAWAY: Let me give you a piece of information to counter that. In one day care center, those running it wanted to incorporate into their program a parent training component to teach parents more about child raising, child care, and child development. They struggled with the problem of how to get the parents to come, and so tended to analyze why parents did not come. The first thing they found out was parents did not have any way to get to the center because the public service did not transport them in the directions that they needed to come at the hours of the day the training courses were held. The public service company was geared to transporting people during working hours.

Second, parents did not have any place to leave their kids to come to the meeting.

Third, the family had so little time together, anyway, that they hated to take time out to come to that kind of an activity separately.

The problem was solved by holding a dinner every two weeks. Free child care service and transportation are provided. Every two weeks the training program operates for about three or four hours in the evening.

MR. McCLELLAN: What happens when the Hawthorne effect wears off?

MR. PITTAWAY: That is a key question. If the Hawthorne effect wears off, then you come up with another effect.

MS. ROWE: I proposed we adopt three small differences from the labor union model. One is that we study what women do and go to them. Women go to supermarkets, laundromats, coffee klatches, and TV repairmen. I wasn't suggesting that we ask them to come to us. The second thing is that we have a demonstrable and important service to offer. We can easily require people to perform certain activities on a once-only basis, if necessary, in the beginning, such as visiting three places before we take their child in our program. That is not the kind of program you are talking about. Finally, I don't care at all if people come every year. I would be puzzled if a parent participated every two weeks for the rest of his life in one of these parental training programs. What I would like to do is to have something around that 3% of the parents come to for three or four or ten evenings a year, when they want to or maybe when they first join. Of course, the Hawthorne effect will wear off. Shouldn't it?

With your first child, you will go 15 times and for your second, 10 times, and for your fifth child, you will chair the meetings, and maybe family planning will take over before the eighth time.

I would like to get to parents as much as possible and especially to offer possibilities to parents who want to participate. If you pile up all the child development parent participation programs in the world and then read Robert Hess, who has just finished looking at all those programs, you get the feeling that half the parents in the world really don't want to see their kids trained, and the other half would like to be doing something.

MR. JACKSON: Since we all agree that there should be some local planning and control, I wanted to ask what alternative we could suggest if we couldn't get the different interest groups in the community to come together and plan. For example, in any community you have different interest groups -- blacks, whites, chicanos, anything. You have to set up a group of committees in the community and pretty soon you have a monster and you still can't get any planning done.

In urban redevelopment we hear the question, Why isn't this work completed yet? I know that part of the redevelopment staff work is to go to all these meetings in different areas to get a compromise from all these people so they can sit down and start to plan something. Some eight or ten years have passed and we have nothing done.

We are agreed on the need for local control, but what alternatives do we have so we can get good child care in these areas where people can't sit down and plan things?

DR. HEDRICK: If you get local control, how are you going to get the state to agree with it? It is a bureaucratic reality that at some time and to some degree, you have to get state approval.

INCOME REDIRECTION

MR. McCLELLAN: There is also the marketplace and the income redirection that may be necessary to permit everyone to operate in the marketplace. Also there are the controls that are necessary to make sure the marketplace isn't abused. I favor those kinds of solutions -- vouchers, for instance.

DR. HEDRICK: You were referring earlier to strictly an income supplement. What would that get you? The income supplement without a day care supply provision of some sort? Suppose you did give people money and there was a latent demand for child care services that you hadn't made provision for? What would that get you?

MR. McCLELLAN: Final solutions will require some kind of income redirection, but I don't think we are going to get that much money. I think that we are going to have to pick some areas where we do choose to spend more money and if child care is one of them, beautiful. If we are going to spend money on child care, I would rather spend it through a voucher system with some supplements that may help parent groups, entrepreneurs, and others get started, but which will give control over where the child goes to the parent.

MR. PITTAWAY: The marketplace is only a system that is self-regulated when the buyers are astute enough to recognize differences or care about differences. That would require an exceedingly strong educational system.

MS. HUTCHINSON: And openings.

MR. PITTAWAY: And also some suppositions about whether or not you can make people care and whether you can educate them to the point where they do care. You can discriminate, also. I am a reasonably astute observer, and when a personal situation arose involving nursing homes, I found that I couldn't evaluate them.

MR. OGILVIE: Would you rather have had the public welfare department pick one out for you?

MS. ROWE: That is a Keith McClellan-type question.

MR. McCLELLAN: That is true, but the government should have some regulatory functions. Among those might well be some having to do with the quality and versatility of programs available. I think that is the kind of research that perhaps should be promoted and experimented with.

MR. PITTAWAY: I think your question was a little bit unfair. I don't think anyone has yet come to the point of view around this table that in a free and open direction of child care, the welfare department would be assigning people to any kind of center. They would be regulating, perhaps, the existence of centers.

MR. OGILVIE: The real question, I think, is how much influence -- influence is not necessarily a bad thing -- the federal government or the state government wants to have in directing a good parent to a program for their child. A program for one kid may not be good for another. I think that is an interesting intellectual debate and we will probably not resolve it this afternoon. I don't think it hinges on which delivery system we adopt.

MS. ROWE: I might add one final system we haven't discussed: the proposition that the government offers parents the option of taking care of children in their own home, paid at ordinary baby-sitting rates of $40 a week, or taking them to the program of their choice.

MS. HUTCHINSON: I would like comments. This is being discussed. It is being tested.

MR. OGILVIE: It is a good idea.

MS. HUTCHINSON: My feeling is that if we told Mr. Mills about it, there would be wise opposition. It is a very interesting idea that maybe the Women's Liberation movement would support. It is a question of value. I would like comments on it.

MR. PITTAWAY: If everybody gets a good taste of what day care will cost under federal standards, in a few years they will find it is a hell of a lot cheaper to let the mother stay home and take care of her own kids.

DR. HEDRICK: I don't have any trouble with it. You have been setting us up for this, I believe.

MS. ROWE: The other side of this coin is an injunction to the Bureau of Labor Statistics and the Bureau of the Census which will enjoin them next year to define as work that which women do and to add them into the gross national product. When that happens, some of the matters of what women are paid -- the federal minimum wage for women, actually paying women instead of just computing how much it is -- will become more active topic for the conferences of next year.

DR. HEDRICK: It would be feasible, it would seem, to pay women with more children more for staying home with their kids. Possibly, though, this runs a little bit counter to family planning.

MS. MILLER: Even at $2 an hour, which is the suggested increased minimum wage, if your full week on a year-round basis is 2000 hours, that would be $4000.

MS. ROWE: Jim, if you paid all the mothers and fathers who chose to be paid for taking care of their own children in their own home an hourly rate, some would take care of ten and fifteen children and some take care of three and four but they would get the same pay. That is, those who take care of then and fifteen get paid less, in effect.

I am not altogether flippant about the idea of calling this thing work instead of welfare. In the family day care system in New York, when it began, the women were paid by the city. Provider mothers were paid by the city directly with checks that made them New York City employees. In a grand reorganization, and according to the wisdom of the ancients, the checks were switched to the welfare department and provider mothers were paid by welfare. They now get two welfare checks instead of payment for work. The drop in morale -- the bitterness and the resentment -- was enormous. It matters to women that they be considered human and that what they do be considered work, which defines us all as adults.

MR. GRASSGREEN: Who is going to say that when the recipient receives the dollars, she actually stays home? One of the comments you made was that you want to lessen the chance for child abuse.

How do we know the mother doesn't just leave that child and do something else with the money? You are paying for a purpose. How are we going to find out whether this purpose is being served?

MR. OGLIVIE: I think it is dangerous to design a social service program around the few people who are going to cheat. There are, in fact, 5% of the people who leave their kids out in the back alleys and I am sure under a public day care system there would be 5% of the kids in atrocious centers. If they were all in proprietary centers, 5% or more would be in atrocious centers also.

That is a criticism that is frequently raised in any delivery system. I don't think we ought to design our entire delivery system around that 5%.

MR. GRASSGREEN: It would be difficult to see what is going on and make sure we do what we intend to do.

MR. OGLIVIE: I think there is good evidence that parents are concerned about their kids and that there will not be an enormous amount of cheating.

MS. LAWALL: I have heard people suggest that you couple this program with at-home technical assistance, child rearing, and child development. You train community mothers to be neighborhood and community leaders who visit the homes once a week or every two weeks. This leader facilitates the mothers getting various services, such as those from the neighborhood health center or whatever. This makes it a real project and gives the mothers some responsibility other than being paid to stay home and babysit.

IMPLEMENTATION

MR. PITTAWAY: Let's get back to the issue that started this discussion: How do you cut through the morass of federal, state, and local control and get a child care program implemented? There has to be a decision-maker someplace in this sequence. Somebody is going to have to say, "Okay, that is the way it is going to be," and, "Yes, that is all right," and, "No, that isn't all right." I hope there will be as few decision-makers as possible.

MR. GRASSGREEN: Why?

MR. OGILVIE: Why?

MR. FEIN: Why?

MR. PITTAWAY: I think you do have to have a decision-maker at some point. That decision-maker should operate under the federal system, perhaps at the regional level, to approve plans and require that they include a thorough evaluation of all of the alternatives and specify in detail the reasons why a particular alternative is being selected. In this way you can at least assure that although community interests were brought to bear in the analysis and the recommendation that is being made by the state, the veto power that the federal government has is over whether or not those who prepared the plan actually did a thorough job in their analysis.

If they are not doing a job or if they need assistance in doing that job effectively, the federal government should be in a position to assist them, in whatever way it may be required.

MR. FEIN: The question of who is going to control implies we are going to distrust people -- that we are going to build in the feeling that we have to watch them or they will get away with something.

From the discussion that I have heard in the last half hour or so, I would think that the federal government would pursue a policy of assuming that people are responsible for themselves; it would assume that parents can take care of kids. Give parents lots of information, give them lots of openings, but don't come in with the notion that you have to have a decision-controller who is going to be watching just in case, and ready to pounce on any wrong doer.

You could have a federal policy of paying parents to take care of their kids and if you weren't watching out for the people who were getting away with it -- with strong control and approval there and approval here -- the best program in the world wouldn't work.

MR. McCLELLAN: There is nothing more vital than the delivery of food services. Yet we don't have to have state plans for grocery stores. We have health departments and so forth. It may be true that in some instances we need to watch the watchdogs. But at this time we don't have a mammoth federal bureaucracy to support grocery service delivery. By and large, in the United States, we get food delivered to us as cheaply as anywhere in the world.

MS. BELL: But if a corporate owner wants to pull that store out of that neighborhood, he can pick up his Safeway and go away. If we did that with the neighborhood program for day care and if, for some reason, someone decided it wasn't being properly administered in the community, are you going to take it away? Are you going to disappear with it?

MR. McCLELLAN: If there is a demand, there will be somebody there to pick up the slack.

MS. LAWALL: I don't know if that is really going to help it.

MR. McCLELLAN: If there is money involved and it is profitable, it will happen as it happened with food stores.

MS. ROWE: In Sweden the ease-of-entry provision is that any group of parents who don't like the establishment system may get state funding to set up their own. It works very widely and very well. The new parent alternatives mostly die off in a few years when the interest of that group of parents has lessened. The system provides continually for an outlet for those who want to buy a different kind of product. It does work. The reason it works is that enough money is available from an ease-of-entry provision for people to be able to provide the kind of service they want for their child if they wish to skirt the bureaucracy.

MR. WARNER: Can you give an example of how that works? Do you mean people in a five- or six-block area can get together and petition the federal government for $10,000?

MS. ROWE: They go to their little city hall and sign a statement saying, "I hereby withdraw my children from the public school system and request money to set up a school system for our own kids under the following provisions."

I realize that with the present level of disaffection with the public schools in the United States, my proposal is radical, but we might at least try it for child care.

REGULATION

MR. WARNER: It seems that it raises the issue that Al keeps mentioning: somebody is going to have to decide whether it is okay to do that. What is your plan for this? Are you going to just hand out the money?

MS. ROWE: Al said somebody should make a comprehensive evaluation of the possibilities. Al, how can you do this when we can't do a cost-benefit analysis? We don't know what the benefits are.

MR. PITTAWAY: You don't know what the alternatives are?

MS. ROWE: You were the first person to criticize the Abt study because we didn't evaluate outputs. You were perfectly right. In fact, we aren't even satisfied with our level of evaluation of inputs, and neither are you. But you asked for a comprehensive evaluation of the alternatives in child care. How can you? According to what goals?

MR. PITTAWAY: I meant evaluation in terms of what the parents themselves want for their children in a local area.

MS. ROWE: Okay, and then should we evaluate what they want? I think we should limit child abuse. Parents are now taking care of their zero- to six-year olds and their children after school. Why don't you evaluate what they are doing with their kids and place state restrictions on them?

MR. WARNER: They are not receiving federal money for it.

MS. ROWE: Very large numbers are, David, in AFDC.

MR. PITTAWAY: If you examine the requirements for funding the Model Cities program, you will find that HUD did a very interesting thing. It stood back and very astutely said, "What we need here is community participation. So we will write a little provision into this legislation. We won't approve a plan until the community groups agree with the county governments or with the local governments running the program that that is what they want." Essentially, that is all HUD does. It just sits back and prods and proves and gives technical assistance and works with local groups until those groups come together with one meeting of the minds on what they want.

MR. McCLELLAN: It is a terrible waste of resources, isn't it?

MS. ROWE: Why do that? Why have community participation? Why not let parents decide what they want with other parents of their choice?

MR. PITTAWAY: But you really give up almost all control of the system if you do that.

MS. ROWE: We don't presently have control. We are not limiting child abuse as it is. Possibly if we add federal funds to give to parents for taking care of their kids and train them and visit them, it might work. I mean there were family day care mothers, now provider and career mothers in New York who say, "I was an awful mother. I never stepped out of my house. My children did the shopping. I hadn't been out of my house for two years. I used to yell at the children. I never dated. Now I feel like an adult. My kids are happier. I am taking the kids to the zoo. Most of all, I am in constant contact with other adults."

MR. PITTAWAY: If your conceptual training program was so effective that you could make the buyer of service an intelligent buyer of service, then some of my fears for that system would go away.

MS. ROWE: I can't guarantee it, but I can offer her or him the for the first time. You have to understand the tremendous isolation and closed-in feeling that single women with kids feel, especially single black women in an inner city ghetto. Cracking the isolation of parents is our first step in improving child care in this country.

MS. HUTCHINSON: I think you have to look at it from an overview. I think we have some issues in consumer representation of how to make child care possible, controls or not, how much government should we have.

We have no government control in day care now, essentially. There are no specific state plans, no monitoring or evaluation, no accountability from the federal to the regional to the state to the local levels. We don't really know where we are. We are just beginning to get some cost information. So where do you start? Do you hope that the parents at the local level will get together and somehow have enough sophistication to know how to get through the local government to get funds and then what if you have five different groups within the same neighborhood?

Then, perhaps, two neighborhoods away, there is nothing. What would you want to do at the federal level and at the local level? Somehow the two levels have to meet. Control is not a good word, but at every turn, the government -- that is, the executive department -- is asked to justify its expenditures.

We have to have some accountability for the funding. How do you get the bottom and the top levels to meet? It is very difficult unless you have some coordination. So how do you get coordination? You try to give enough technical assistance at the state level to groups who are interested. You try to have the policy-making group comprise representatives of all the interest groups in the state, including consumers. So then you have a dilemma. Do consumers have the time and the expertise to make policy decisions, or should they be merely an advisory group? Will they express their true views in an advisory group, or will they be quiet in the presence of more knowledgeable and sophisticated people?

These are real issues. Suppose this group is making policy. Suppose the consumers are quiet. And suppose the people, the proprietary operators, the child development specialists and educational people who are on this policy group at the state level, say, "We know what is good for the kids and the consumers don't speak."

There is another dilemma. How does this child development council, or whatever it is called at the state level, coordinate all the state plans for community plans, given the political atmosphere in that state where the legislature may be of one party and the governor of another? This group will report to the governor. It is presumably a direct link. This decision-making body has to pull these ideas of neighborhood groups together, either through a central neighborhood group or city organization, into some sort of coordinated plan at the state level.

Somewhere along the line someone has got to make some decisions. I would hope it is done without control, on cooperative basis, but things aren't all that easy. So there is the dilemma.

My feeling is that people don't want social services -- counseling is not really a service any more. They talk of hard services -- child care, transportation, health services. People want social services people to come in and ask, "What is your problem?" Then they pick out a service to solve the problem. This is a very hard-line approach to the social services.

In other words, if we apply this to child care, we don't spend a lot of time with the parents. We say, "Do you need child care so you can go to work? You have three child care services in your neighborhood, so take your choice."

There are many problems in getting the mothers to organize to know what they want, to vocalize their feelings, and then get something done. There are problems in coordinating the planning effort from the top down. I don't think the federal government wants to control it. It needs to shape the framework. If the states can do it, fine, but it needs somebody to bring the plan to the states and then somebody to coordinate the states' plans. If you don't have decision-making, nothing gets done.

MR. GRASSGREEN: You say we are not going to control, we are going to guide. You want to guide and allow the consumer and the parent to make their own decisions. Assuming there is no so-called control, there is a guide. Let's say there is an improper plan based upon funds misused. It is a reality. It happens. Is there a veto power in the government? Do you feel there should be in relationship to the millions of dollars?

MS. HUTCHINSON: I think the procedure of general welfare compliance should be used: go in and try to straighten it out. First of all, you do everything you can to rectify the situation. The next thing, if there is no cooperation, is to say you are not complying and withdraw the funds. We have had very few cases where there has been withdrawal.

MR. GRASSGREEN: Yes, we have had very few cases of withdrawal of funds in relationship to different government programs, but has this not been perhaps not because of compliance but because of political implications?

DR. HEDRICK: Compliance is too strong an axe for control of welfare. Are you going to cut off the California funds? No.

MR. JACKSON: Two points about revenue sharing. The federal government is not going to say, "Here, Mr. Mayor, you do what you think is best with the funds." In the second place, local people don't want the federal government telling them what to do. So where is the revenue sharing going? It is going out the window. You just can't send money to the local level. I wouldn't want $2 million to go to any city with the federal government say, "Well, you set up a day care program." I want to know where that money is going to go.

MR. GRASSGREEN: I want to ask Mary a question, if I may. Just using a figure of $4000 for the year for any parent to take care of a child at home, what would be wrong with carrying it further and actually making the payment to the mother to make her choice. Here is $4000. You can stay home at $2 an hour for 2000 hours and take care of that child, or you can take that $4000 and buy yourself child care services, assuming that child care service meets accreditation standards.

Why don't we carry it a step further. Why not actually go to the parent and say, "Here are the funds and you make the decision what to do." What does this create? It creates a competitive free enterprise system, less policing and less control, because competition creates of itself an inner control, though not always. Therefore, you will have quality day care meeting certain standards. Of course they will be abused. But whether we have private enterprise or government-run centers or family programs, there is abuse, no question about it.

What I am saying is that it would appear that the parent would be able to go ahead and have that buying power which the middle-income family has now, therefore creating a demand for companies to provide better and better facilities.

MR. MILLER: In this system, the mother can work.

MR. GRASSGREEN: That is right. If she has that $4000 and sits home she doesn't create anything except maybe tremendous family unity.

But if that $4000 is put into another unit, the center, that center has that $4000 to create more jobs. So the mother goes to work; it just permits the money to go further. What I am saying is, why stop?

MS. ROWE: That is exactly the program that we have outlined.

MR. CARLISLE: An issue which we felt is important is the elasticity of supply of various resources needed if day care programs expand. If we are going to expand day care, we are going to require a lot of resources, some of which are scarce. I would like to throw the floor open for discussion about what will be the effect on the cost of these various resources if we go into a major national expansion program of day care and about what the scarce resources are.

Are the facilities, management, and personnel for teaching and training scarce?

FACILITIES

MS. BELL: I would like to say one thing about facilities. I think Keith had mentioned that there are many renovated facilities, but I think right now facilities, in and of themselves, are scarce. I think it was Joan who said we were running out of church basements. I do not think there are many centers. I do not believe there is any funding right now for actual building and construction of facilities themselves. Am I right? I do not know if the new bill provides construction funds.

MS. HUTCHINSON: Yes, it does. If I can identify some real problems or issues that we are faced with, this is one of them. What is important as far as facilities are concerned? I would be glad to listen to your comments.

MS. LAWALL: It seems that what everyone has said mainly is accessibility. You cannot have one enormous facility in the middle of a city.

MR. GRASSGREEN: In a city such as Montgomery, Alabama, which is not really a large city -- 160,000 -- you could not have one center. I would say you would have to have five or six different center areas.

Transportation is not always readily available. Busing is a problem, mainly in taking the child home. If nobody is there, what do you do with that child unless the center is open 24 hours a day?

Facilities for day care located as part and parcel of public housing projects is going to become more and more prevalent.

MR. MARQUARDT: I have been working in the Day Care Division of the Office of Child Development. Right now 98% of the day care provided is in homes. Most of it is unlicensed, but it is in homes.

Even if legislation is passed we feel that still about 90% of all day care will be in homes. Our office is concerned about what the type of care will be in the homes. We are working with North Carolina State University developing ways in which we can have a day care center which is like a home.

I think if we are going to deal with the issue of facilities we should certainly deal with day care homes. How we can make the home a center for learning for the child?

MR. GRASSGREEN: When you start using homes, I think you are going to have to bend or change the regulations. Take the physical facility requirements, such as so many toilet facilities in relationship to the number of children.

MR. MARQUARDT: There are different licensing standards for homes than for centers in every state.

MR. GRASSGREEN: I think you said, Robert, that you are talking about licensing actually controlling the quality of the facility. You were discussing the minimal effect.

MR. FEIN: Guaranteeing minimal protection.

MR. MARQUARDT: But we could renovate the home rather than renovating a building. That might be more effective and much cheaper in the long run, to go around renovating homes.

MR. GRASSGREEN: We have talked about renovating versus building new facilities. I think probably it costs more to create new facilities than to renovate and there is a time lag, too.

As I said, it takes us at least six months -- and the average time is nine months -- from when we first decide to find a site until we can open it, because of the numerous regulations we have to go through in relation to zoning, health, fire, traffic, and so forth.

You do not have that in renovating. I think implementing a day care program by renovating houses would be much quicker than if you had new facilities. But facilities are important in relationship to the actual environment in which the child is placed.

I think there is a lot to be said for the home but I think there is also a lot to be said for a structurally designed center with particular reasons for how it is built. It is pretty and it is nice and these are things that children may not have in the environment they are presently in.

MR. WARNER: Mary, do you know what the average cost of renovating homes in the New York system was?

MS. ROWE: $267 per year.

MR. WARNER: Isn't there some original renovation cost before a mother can get her home licensed?

MS. ROWE: There are no figures on start-up renovations because there was no money available, but they do get $267 per year for renovations and ongoing repairs, which is grossly inadequate. general scheme that is used is that the welfare department comes up with something between $200 and $400 per home for building gates and so on. But that is in an area where the public safety department is not concerned about whether doors open in or out, whether or not stairs are safe.

MR. PITTAWAY: There was information given out yesterday on the

Vermont study which said that organizations were getting $2500 for renovation of a center.

MS. HUTCHINSON: The government agency responsible for funding facilities must consider the cost of renovation versus the cost of new construction, the cost in the city area, the situation in a rural area, the kinds of children you are going to serve, the funding mechanisms, the mortgage procedure.

These are all considerations and we are faced with more than just what are the costs at this point. I think generally we can talk about cost based on the experience of national programs, and of medical facilities, and things of this kind.

But what are the priorities? What should they be? What are the alternative programs to renovation? This is in the phase that the legislature that will provide money for housing, new construction, renovation, acquisition of land and equipment. Where should our priorities be?

MR. WARNER: Isn't there a strong case to be made for renovating homes? Not only is it apt to be cheaper per child if you want to create slots, but it can be done quickly and you also have a nicer home for someone to live in. You have not created a facility which won't be used for half of a 24-hour day.

MS. HUTCHINSON: I am not saying I oppose that, but what if it is only used for two years? If there is mortage insurance for renovation, you are talking about a 20-year operation..

How can we ensure that money is put into a facility like a single residential dwelling and that it will get the long-range benefit that is built in or that should be implied in making this kind of investment?

It is very important to know if you are talking start-up costs or a lump sum per year. They are two different things.

MS. ROWE: Which do you want to talk about?

MS. HUTCHINSON: Start-ups.

MS. ROWE: Start-up costs are very small. There are family day systems where the start-up costs, a real renovation of the home, are very inexpensive. There are other family day systems where the system provides nothing and the provider is forced to renovate all on her own, which is a pretty grisly scene.

Or, as in New York, they accept any home which meets basic warm, safe, minimum standard. New York City gets provider homes in family day care and career programs that are probably not licensable in Massachusetts, where opening standards are different. But for the children involved, the minimal standards may be a long step up. It seems to me entirely reasonable that the city of New York chose to do that. Those start-up costs are $200 or $300 or $400 per home; the amount is a bit flexible. A home in better condition gets $200 and home in worse condition might get $400, but they do not get any large sums of money.

MS. HUTCHINSON: In that case, you are talking about a home with fewer children.

MS. ROWE: That is right.

MS. HUTCHINSON: I think that amount is more of an expense item which will be charged to expenses rather written off as a long-term investment. But I think we have to address ourselves to where do we want to go with groups larger than six?

EXPANSION OF DAY CARE

MR. PITTAWAY: You cannot consider the question of how you are going to spend your money for facilities outside of the question of how you are going to expand the basic day care system. The two have to be taken hand in hand.

If you want to expand rapidly, the easiest way is through the family home system because you do two things that way. One, you have an immediate source of talent on which you can draw. Second, you start training the basic people that you are going to need at a later point in time to run an even more expanded system later.

You start your whole development and training process by that mechanism, which means that your investment costs for facilities are going to be low at the beginning and increase at a later point in time as you start building the system up from the bottom.

You start forming day care centers and satellite homes and so forth. Your major cost factor there is going to be determined by what the licensing requirements are in the state. Some of them are ridiculous. You have a home and you have a child in that home and it is considered to be safe by the housing codes to raise children in that home. But as soon as the next-door neighbor brings her child over and pays that other mother to babysit then all of a sudden they have to have overhead sprinkling systems and quarter-inch glass doors and French doors that open outward and grills over the fireplaces and screens on the hot water heaters and all this other kind of stuff.

MR. CARLISLE: I would like to get into the question of looking at other scarce resources such as personnel -- day care center directors or managers. If, indeed, we have a major expansion nationally of day care centers, is the elasticity of supply of day care managers such that Dick's salaries are going to be driven up simply because there are going to be people competing for their services? What do you think about this?

MS. ROWE: This is a lovely, specific reason for having small decentralized centers close to home. The number of adults who can warmly and marvelously direct or teach in a center with 15 or 20 kids is reasonably large. We see it all over Massachusetts. It is interesting to watch the parent cooperatives choose a person who becomes a part administrator and part teacher. That kind of person is not difficult to find, at least in the two large areas of the country that I have looked at.

If it must be that we have to be training and finding directors for larger centers, maybe that is a good pool of people for the future. It is plainly difficult to find anybody -- I am not even sure they can be trained -- who can warmly and wonderfully run a center for 100 children. But if there are going to be such people for some reason that I do not know now, let us draw from people who have had experience with good, warm, little centers. That is one of the stronger reasons for going for small centers.

MR. PITTAWAY: But still there has to be a certain amount of business even at that one person center in order to be able to run it properly.

MS. ROWE: But that sort of person takes to modified, simplified budgeting very quickly. Is that your experience?

MR. McCLELLAN: Yes, I would think so.

MR. PITTAWAY: There needs to be a business administrator put into this place somewhere that can handle the teaching function.

MS. ROWE: That is good. Systems built up on collections of small centers, those centers being close to home, the programs being predominantly parent influenced, if not controlled, with some centralized functions like the bookkeeping, training, and presumably education, and so on -- that seems to me a very fine approach.

MR. CARLISLE: Let us assume that we wanted to get a major expansion of day care services, whether in centers small or large over the next two years. What would happen to the supply of personnel, such as teachers and managers?

MS. HUTCHINSON: I think the Child Welfare League of America study points out that for child care centers and child institutions, in the cities that they are in, there was not a scarcity of aides or whatever you have for child care centers.

The other fact is that we are getting into an era of surplus teachers. With a little bit of extra training they can work at a day care job. I think I would agree that we have expanded in home care and we are planning to provide some training for those personnel.

MR. PITTAWAY: I would agree that my experience has been that staff is available. Administrators are not.

MS. LAWALL: I agree with exactly that. There really is no shortage of people, especially local people, to fill these jobs. There are two problems. One, is making the job meaningful and making it important, which involves staff utilization, development of what they do, job mobility. Along with this you get the problem, whenever a day care center is in any way connected with the local school system, of numerous requirements that get in the way. That is a problem more than you would expect. Certification is required -- teacher certification, I mean -- to work in areas in which it certainly is not necessary to have a teaching degree. Qualifications for caring for a three-year old should not include studies in urban sociology.

DR. HEDRICK: Would that be a federal requirement?

MS. LAWALL: It is not going to be a federal requirement, but it is a local problem you run into when you get into these programs.

DR. HEDRICK: Do many localities require teacher certification?

MS. LAWALL: Yes. This is a problem especially in terms of job mobility for these mothers if they really are interested in moving up. If you are going to have vertical mobility for day care staff, they should be inspired to accumulate more responsibility. They stop dead when they are up against the certification requirement.

MS. HUTCHINSON: It is in one of the bills that teacher certification cannot be a requirement.

MR. OGILVIE: I would echo the comments about the availability of staff. However, I would add one caveat. I think those generalizations apply only to the levels currently contemplated for federal programs.

I have done some work with the Urban Coalition for their counter-budget in which we shot for the moon on practically every social program. The objective there included universal preschool education for all children.

When you start talking about that you quickly realize that very few children today in this country today get preschool education of any kind before kindergarten. As you start to add all children in below the age of five or six years and provide some kind of preschool services for all children, the manpower requirement became astounding. In fact, we had to crank back the objectives of our social program dramatically because we were unable, even with wildly optimistic assumptions, to quickly enough train people to provide those kinds of services.

The real constraint on expanding the early childhood part of the study was people.

MR. CARLISLE: It seems to me this could be a major problem for implementing a day care expansion program. Let us assume that there is some standard imposed either by the states or the federal government on the level of training and/or experience for day care workers.

Then suddenly we start an expansion program and we begin to have a very short supply of these people and the salaries start boomeranging. As everyone here has pointed out, the personnel costs are a major factor in the operation of a day care center. We could just drive the cost of day care services up tremendously.

MR. HEDRICK: The point is that with the present programs there is not too much price change. You have a fairly elastic supply.

MR. OGILVIE: We are talking now about programs that might double the cost.

MS. ROWE: Let me speak about both of these things. First of all, there is no state that requires certification of a family day care mother. The family day care programs represent no difficulty about certification. There are some states that do have awful certification requirements for people, as well as service licensing problems. I suggest that there will be many states that will change those certification requirements very quickly if they do not get federal funding.

The question of whether or not there will be a sufficient expansion or how elastic the supply of teachers and teacher-aides would be, I just ask you gentlemen to look again at the statistics of underemployment and unemployment of women, much less men, in this country.

The Child Welfare League study made it clear that you could take hard-core unemployed who wanted to work in child care and get good child welfare workers.

Our present statistics do not include those people who have given up looking for work. It does not include that large body of teenagers or retired people who would like to work at least part time. I cannot believe with the present unemployment picture that there would be a dearth of employees at any reasonable level of expansion.

MR. WARNER: He was talking about the training problem.

MR. OGLIVIE: There are lots of warm bodies.

MS. ROWE: But the training problem is not difficult. We have a surplus of trained teachers. It depends on who is doing what kind of training.

MR. CARLISLE: Look what has happened to the cost of medicine.

MR. McCLELLAN: I think one of the problems of the whole training issue is that we begin thinking about career ladders. They soon lead to blockages and cutoffs.

MR. CARLISLE: If NEA gets into the act, there will be requirements.

MR. PITTAWAY: I am not totally familiar with all the states and their licensing requirements for day care operations, but the most stringent ones that I personally am familiar with require 12 hours of early childhood education courses to be completed by the director of the center.

MS. ROWE: But not by the teachers.

MR. PITTAWAY: That is right, not teachers. I think built into my statement was the assumption that we were going to have something like the same kind of staffing patterns we have now, maybe one or two professional teachers and a lot of teachers' aides.

MS. ROWE: Trained paraprofessionals -- men, teenagers, foster grandparents.

MR. PITTAWAY: The trained teachers are probably available for any reasonable expansion of child care in the near term. As for the teacher aides, paraprofessionals, foster grandparents, and what have you, they will require some training. But you are not talking about the same kind of training as for the higher professional levels. Do not ever let anyone write into one of these pieces of legislation the fact that the people are there and therefore no training is required, because the training is going to have to be provided somewhere, and also long-term training programs will have to be established.

MR. CARLISLE: There are day care centers operating now and new ones opening up. They are following, without any requirement being imposed on them, a pattern whereby they require all of their teaching personnel to have degrees and in some cases graduate degrees. Other day care centers opening up are going to compete with them. It may not be a requirement, but it may be an established pattern in the industry.

MR. FEIN: I would send my child to the center without the people with the degrees. I am not clear that that is necessarily a competitive advantage just because you have a high number of staff members with degrees.

MR. PITTAWAY: The education courses may take more out of them than it puts into them. This gets back to the thing we were talking about during Burt's presentation of his paper today: that is, he was recommending that for reimbursement for a core program, a specific cost should be established, and that causes the public body to come to grips with the issue of what level of quality and quantity they are going to buy in day care.

That is the control point at which you will impose a restriction which will keep you from having all people with master's degrees operating the day care centers.

That cost is clearly out of line with what is required, in regard to quality and quantity. Therefore, it should not be paid and if it is not paid it would not be provided.

MR. CARLISLE: We could have problems even getting some trained personnel, even people without degrees. We may have a shortage of personnel who have some training.

MR. FEIN: I mean to be clear that there is great need for increased training, mostly in-service training that involves all the people. When we talk about centers, for example, it involves all the people working with kids, from the cook to the secretary to the administrative assistant to the teacher to the paraprofessional to the parent and to the kid himself, or herself.

That kind of training is not being given in a large scale. It is less clear to me that there are needs for massive preservice training and certification requirements if the aim is to provide good quality care.

MS. KLAUS: We are proposing now to develop what we call package technical assistance in the form of audiovisual training programs. There would be a unit in a day care center that is portable. The programs would be directed toward parents and paraprofessionals and teachers in various areas. We are thinking along these lines for in-service training.

MR. McCLELLAN: I would like to make another comment about facilities. It seems to me that there are some very clear patterns which are implied but have not emerged fully. In inner cities, particularly places where scorched-earth policies have occurred over a period of time, there are many, many facilities, usually vacant, that can be relatively easily renovated. In declining and static cities and towns there are also facilities. On the urban fringe, or in cities that are growing very rapidly, there will be a lack of facilities, and it is a very predictable fact.

MR. WARNER: Are you willing to say that these facilities can be renovated at reasonable costs?

MR. McCLELLAN: Yes.

MR. WARNER: In comparison to building new facilities?

MR. McCLELLAN: Yes, very much so.

MR. PITTAWAY: I think you have to temper that remark. You have to evaluate it on a local basis. Philadelphia has not found that to be true. One of the limitations of the expansion of their local program is the cost of funding the facilities which they can get licensed.

MR. McCLELLAN: There may be licensing problems. There have been some licensing problems in Chicago, too. No basement can be used, even though the basement can be two-thirds above ground.

DR. HEDRICK: I thought Chicago had the most stringent licensing because they had a fire in one of these day care centers.

MR. McCLELLAN: Within the last nine months the licensing codes have been somewhat altered and it is now possible to operate day care in some church basements where it was not before.

There has been some discussion about modifying the licensing requirements so that if you are holding a day care program on the first floor of a multistoried dwelling, you do not have to have a sprinkling system on that floor. That is a complicated story.

AFTER-SCHOOL CARE

MR. BURCHELL: No one has really addressed the after-school care issue at all, and I think this is an expanding field, particularly with regard to the welfare legislation.

Do you see any additional problems or significant alterations of problems in terms of staff? We are talking in many cases about using public school buildings. Would that not alter the cost situation a lot? Perhaps not in terms of the in-kind, but in terms of any kind of cost reimbursable.

MR. McCLELLAN: After-school care is something I am very interested in because of the neighborhood that I live in. We have blocks in my neighborhood where there are 45 youngsters, 60% of whom do not have adult supervision from the time school is out until their parents get home from work.

This fosters gang formations -- destructive kinds of gangs. I have talked to people in these blocks, talked to parents. By and large they would like it if there were something like a foster-parent program where there would be a central agent to provide some insurance -- insurance is a problem -- and some support services, like making sure that the foster parents are there. I do not think it is sufficient to have a place where the youngster can report, but rather there should also be some linkage programs which make it possible for the youngster, if he wants to, to study or if he wants to go next door and play with a friend, he can do that, or if he wants to participate in some formal or informal sports or games, he can do that too.

If these linkage programs exist, then you have a very attractive situation that the parents and children are willing to participate in. But if you start talking about extending the school. . . .

DR. HEDRICK: Yes, there you have a problem.

MR. BURCHELL: I agree, but the way the legislation looks now, the encouragement will be to use school buildings.

MR. PITTAWAY: That is not really feasible. In a lot of these neighborhoods where you are running into the need for these programs is where the schools are running double sessions. The kids that are let loose early in the day will find the schools used for an afternoon session.

DR. HEDRICK: My kids would revolt if they had to go to school any longer than they do now.

MR. PITTAWAY: The kids have a right to a little privacy and fun and games and self-direction in their own lives.

MR. BURCHELL: You were thinking more in terms of the day care home concept, then?

MR. McCLELLAN: A much looser organization in the sense that the child would have the responsibility to report to a place.

MR. BURCHELL: What about if a recreation association supported it?

MR. McCLELLAN: That only assumes one type of activity and there would be other activities that children might like to participate in. One of the fastest growing forms of activity for upper-grade school youngsters is drama.

MR. MILLER: I visited an after-school program in New York City and they have guitar lessons, weaving, painting, drama, athletics, and tutoring.

MR. BURCHELL: Sponsored by whom?

MR. MILLER: New York City.

MR. BURCHELL: But I thought they used the school facilities.

MR. MILLER: They use the school facilities, but there is a wider variation in the availability of the program and the kids can go to any part of it. I think the only thing they needed to sign up for was guitar lessons, but it was all free.

MR. BURCHELL: Who was responsible for the supervision of the child?

MR. McCLELLAN: Did it reduce gang formation?

MR. MILLER: You know New York City. I do not know.

MR. McCLELLAN: The advantage of having a foster home on the block is that the child would be accountable to report home as if there were a parent. While this would not altogether stop groups from forming, it would introduce some accountability that may not be there if you have a free-floating program.

MR. PITTAWAY: I seem to remember someone mentioning the other day that when these after-school programs were formed in public housing authorities, they found out they saved enough on vandalism to pay for the program.

MR. MILLER: New York City is not an accountability program, but Arlington County, Virginia, does have an accountability program. It is also in the school. If a child is registered by the parent and does not show up, the parent is notified that the child has not appeared. There is strict accountability. The parents in the Arlington program pay, but it is a very small amount; they feel much more responsible.

MR. PITTAWAY: It does need to be before and after school.

MR. McCLELLAN: The serious time is after school in terms of what things are going on.

MR. BURCHELL: Kids do not get to school in the first place if you do not have a before-school program.

MS. LAWALL: Would people agree that a day care center concept for after-school care is totally infeasible?

MR. BURCHELL: I do not think it would be the same center for a number of kids. I think after age seven, going to the same place the four-year olds go to has a stigma attached to it.

MS. LAWALL: I think older children need different kinds of activities. I do not think they are happy in a group of fifty divided into little groups of ten when they are in school. You either have to stay with using a school building, which is what I have heard people talking about in the government, without having an extended school day or you have to use the family group home concept. But I have not heard anything else that is a good suggestion.

MR. McCLELLAN: School-age children range from six to sixteen years or more, so I am not sure that the same group day care center activities that work for six- seven- eight-year olds will work for a different age group.

MR. BURCHELL: I worked with a program in Washington back in '63 and '64 where two inner city churches took the eight- to fourteen-year old group. They had an area that was set off for quiet kinds of games or study and then they had basketball teams and other activities going. It was a small program, but I think they ran it at a loss by the time it was halfway through.

DR. HEDRICK: We are talking about an after-school program in the school. The facilities are obvious but what would be the management of this thing? Who would direct it?

MR. MILLER: Local groups. One of the ideas that is being tossed around that I think is most useful is using older young children, even twelve- thirteen- or fourteen-year olds to tutor.

DR. HEDRICK: You are not talking about children helping in the day care centers, are you?

MR. MILLER: No.

DR. HEDRICK: Helping after school?

MR. MILLER: And perhaps even in the day care centers.

DR. HEDRICK: People had mentioned this a number of times for day care centers. It seemed to me that may be the girls might be willing to do that, but I don't think the boys would.

MS. LAWALL: In a study I worked on, we came up with the idea that you could even give juniors and seniors in high school credit for their work. This would be taking advantage of the cross-age learning idea. You could give them credit for the work they do with the little kids in the day care center.

MR. MILLER: Montgomery County is giving release time during the day for girls or boys who think they are interested in teaching as a career. They are getting release time to observe and participate and assist the teachers in lower-grade classes.

MR. CARLISLE: I want to thank everybody for coming; we certainly appreciate everybody's participation.